
Logic of the MCI Deal Very Compelling

WorldCom's President and CEO, Bernie Ebbers, is a true visionary. Of course, once he reads this he is likely to hit us upside the head for calling him a visionary, precisely the type of label he disdains. Having known Mr. Ebbers for over a decade, it is evident that he has typically done the transforming deals in this industry well in advance of his vision becoming consensus opinion. It is also important to note that Mr. Ebbers has always done transforming deals when his stock has been at all time highs and when visibility of continuation of strong growth was high and thus, Mr. Ebbers was under no particular pressure to do something. To put things in perspective, in 1994 when LDDS at the time was the largest long-distance reseller in the United States and therefore was the largest user of minutes and consequently got low rates, LDDS bought Wiltel because Mr. Ebbers felt then that ownership of network assets was important—something the rest of the world didn't seem to figure out for a few years (in 1994, one could not find a network engineer on the planet who thought there would ever need to be one more strand of fiber laid—they were wrong, of course). In the summer of 1996, again WorldCom was rolling along hitting new highs and yet Mr. Ebbers decided that a standalone long-distance company could not make it in the post-Telecom Act of 1996 world and thus, acquired MFS/UUNET to become a fully integrated provider of local, long distance and Internet services, an action the rest of the industry is now scrambling to replicate.

The MCI merger, which brings MCI's salesforce, customer base, and information technology (IT) systems will allow WorldCom to fully leverage its asset base.

This brings us to the decision-making that led to the MCI transaction. One could have made the following statement about WorldCom in the summer of 1997: WorldCom through its MFS and UUNET facilities was the only telecom carrier able to provide end-to-end, building-to-building connectivity on-net from major cities in North America to major cities in Europe and the Pacific Rim for any type of service from voice through data through IP (MCI's assets don't really add to this capability, since MCI's asset contribution is essentially their U.S. LD network). However, there was one minor problem, that being WorldCom's customer base didn't care about end-to-end connectivity. The Wiltel and MFS acquisitions were asset acquisitions. The bulk of WorldCom's customers remained the old LDDS base, which typically use less than \$1,500 per month of long-distance calls and typically are voice-oriented and care more about calling state to state than country to country seamlessly on a data network.

Therefore, for WorldCom to fully leverage the asset base it had put together, WorldCom needed large customers who cared about such connectivity. In order to get those large customers, WorldCom needed a national account sales force and in order to empower such a sales force, it needed systems and IT capabilities as well as a full and rich product set. If WorldCom had to develop these systems and product capabilities on its own, not to mention hire a high end sales force from scratch and then acquire large customers in

the marketplace, it would have taken several years and cost a lot of EBITDA dollars to do so. Luckily, the MCI situation with BT led itself to WorldCom being able to come in and make a better offer and thus, avoid the lengthy and costly process of attempting to replicate what MCI had on its own.

MCI brings the right kind of large business customers to match WorldCom's assets.

MCI represented a perfect business fit for WorldCom by bringing it the right customers, sales force and systems capability to leverage WorldCom's network assets. MCI is very skewed toward larger customers. Of MCI's \$11 billion in business long-distance revenues, \$8 billion come from either key accounts of \$5,000 or more per month which are multi-location accounts, national accounts, which are U.S.-based but have national networks and are heavy data users; or global accounts such as Microsoft, Chrysler, Citicorp and American Express (see Figure 5). In addition, another \$1 billion is derived from U.S. government agencies. This base of customers are precisely the type of customers who require, if not demand, the type of end-to-end connectivity that WorldCom and MFS' networks can provide.

Figure 5: MCI Long-Distance Revenue Distribution - 1997

Type of Account	Revenues (\$B)	Description
Global Accounts	\$2.4	Top 300 corporations-global, data and voice requirements. Names such as Microsoft, American Express, Citicorp, Chrysler, etc.
National Accounts	\$3.4	7,500 accounts, U.S. based but very sophisticated national network needs. Names range from Barnes and Noble to The Weather Channel.
Key Accounts	\$2.0	40,000-45,000 accounts-multi-location, multi-regional in nature with both voice and data requirements. Typically bill \$5,000-\$10,000 per month and above.
Government	\$1.0	Projects such as FAA network, which are very data-intensive.
Wholesale	\$2.5	Declining revenues as MCI de-emphasizes.
Mass Market Business	\$0.7	Small business customers, typically WCOM's strong suit.
Residential	\$5.7	15 million accounts, 30%+ of revenues from transactional services (i.e., call by call such as 1-800-Collect, 10-321, etc.) Of \$4 billion of dial-1, 90% of customers on one or more different plans. MCI has 96% of airline miles connected to long-distance calling plans.
Total LD Revenues	\$17.7 Billion	Bulk of revenues driven by commercial/government users who will take advantage of WCOM's local and international network assets.

Source: Smith Barney Inc./Salomon Brothers Inc. and MCI.

MCI's salesforce is generally regarded as the best in the industry and its systems capabilities are unmatched.

In addition to a blue-chip customer base, MCI has 6,500 sales people in 250 branches who are generally regarded as world class by those within the industry. In fact, they are a sales force from where most of the other industry players usually attempt to steal salespeople. In addition to the right customers and right salespeople, MCI is also the leading systems and software developer in the telecom industry. In fact, MCI's heritage, even when the company had a balance sheet that was leveraged to the point of being a step

away from vanishing, has always been to develop its own product sets and software capabilities. MCI always had 3,000 to 5,000 dedicated software developers who produced very feature rich product sets. The fact is back in the mid-1980s, unlike other long-distance carriers who took fully configured switches from a switch manufacturer, MCI would only take the shell of, for example, a Northern Telecom DMS-250 switch with only the switching module intact and MCI would write applications modules that enabled it to develop the software and product sets themselves. Over the last four years alone, MCI has spent \$6 billion on software network intelligence, a figure that far surpasses any other carrier in this industry. The result of this is that MCI has the richest global, national and international product set for both residential and business customers and in fact, MCI's network intelligence platform is run all or part in about 40 countries around the world including Canada.

WorldCom and MCI is a perfect marriage.

Thus, the combination with MCI is a perfect marriage—marrying MCI's blue-chip customer base, world renowned sales force and industry leading systems, software and product capabilities with WorldCom's most diverse set of telecom assets. In addition, WorldCom will be able to impose its industry-leading operating practices, in terms of running a flat organization and lean cost structure onto MCI's vast revenue base and cost structure, meaning MCI's stand alone business will see efficiencies before any synergies are ever realized. The result is that this new company can continue to build products to put on end-to-end facilities, which will generate an even stronger foothold among the business customer base who will want global connectivity on a seamless facilities platform. The result of which will be more revenues completely on-net, end-to-end which of course drives margins and capital efficiencies.

The logic from a shareholders perspective is equally compelling to the business logic.

On top of the business logic, which made tremendous sense, the stock logic for doing the MCI transaction was equally compelling. In essence, WorldCom traded growth for scale and in doing so, we believe, opened up WorldCom to be considered by a wider array of equity assets under management than was the case before where WorldCom tended to be narrowly but deeply held. In fact, if one attempts to figure out under which scenario WorldCom is more likely to hit \$100 per share over the next 24-30 months, it is clearly with MCI as opposed to without MCI. For WorldCom to hit \$100 a share over a 30 month period, this would suggest that on the new company financials, one would only be paying 2x-3x forward revenues, 5x-6x forward EBITDA and 20x-25x forward earnings—multiples that are all quite reasonable. For the old WorldCom to get to \$100 in 30 months it would have to continue to fetch forward multiples closer to 5x revenues, 15x EBITDA, and 40x earnings—multiples that are harder to sustain as a company's market cap grows.

Synergies and Integration Straightforward

MCI and WorldCom have very complementary customer bases, sales forces and even network assets.

While we do not want to minimize the task ahead for WorldCom and MCI, nonetheless we believe that the synergies that will be realized and the integration of the companies are much more straightforward than the size of this merger would suggest. In the following section, we discuss in detail the sources of synergies which should clearly demonstrate the realness of the synergy outlook. For purposes of this discussion we broke synergies into overall SG&A (local and long distance), domestic network savings (i.e., fixed and variable long-haul savings as well as access savings and MCI local savings by virtue of using WorldCom facilities), and international network savings mostly due to termination benefits. The bottom line is that MCI and WorldCom have very complementary customer bases, sales forces and even network assets (MCI's network has a broader reach in the traditional long-distance sense in that it connects deeper into Bell networks, has more points of presence in all LATAs and has operating agreements to—but not facilities in—more countries whereas WorldCom's network assets are much better represented in newly opened markets such as U.S. local and international, where WorldCom has a much more facilities-based presence in country than does MCI).

In other words, there is very little guesswork associated with the vast majority of synergies here. It is simply regrooming one another's network to optimally carry the combined traffic loads of the two companies. In some cases, WorldCom saves more (e.g., off-net long haul or direct end office termination, where WorldCom takes advantage of MCI's greater breadth of long-haul facilities) while in other cases MCI realizes the bulk of the savings (e.g., local Bell entrance facility costs, dedicated access/local loop expense or international interconnection costs, where MCI can leverage WorldCom's local and international network assets).

Of the \$2.5 billion in likely synergies in 1999 going up to \$5.6 billion in the year 2002 (see Figure 6), 60% of the 1999 synergies and 80% of the 2002 synergies are in network expense and SG&A areas that we would describe as optimizing each other's networks to take advantage of each other's known and existing traffic flows and anticipated growth of specific services. Furthermore, since the deal should close by the end of July, there will be four months of synergies in 1998 which means that even if the "slope" of cost synergies remains as we forecast, the "intercept" entering 1999 should be higher than we think given the running start in the last four months of 1998. We would point out that WorldCom exceeded its synergy targets on MFS by 40% in the first year as a merged company.

Of course, nowhere in our numbers are revenue synergies that will likely be huge, since we estimate that MCI's business customers alone generate \$5-\$10 billion in local service revenues and 90% of MCI's key, national, and global

accounts are in buildings where WorldCom has fiber into or in front of and these customers collectively account for 80% or more of these local revenues. If one assumes that WorldCom could over time capture one-third of these revenues with an incremental margin of 30% (which is conservative), it would represent an additional \$2.5 billion in annual pre-tax synergies.

Figure 9. Operating Cost Savings

\$ in billions

	1999	2000	2001	2002
SG&A Savings	\$1.3	\$1.4	\$1.5	\$1.7
Domestic Network Savings	\$0.8	\$1.4	\$2.1	\$2.6
International Network Savings	\$0.4	\$0.7	1.0	\$1.3
Total	\$2.5	\$3.5	\$3.6	\$5.6

Source: Smith Barney Inc./Salomon Brothers Inc and WorldCom Inc.

SG&A Savings

The SG&A savings we are estimating only account for about 10% of total SG&A expense.

We estimate overall SG&A savings of \$1.3 billion in 1999 growing to \$1.7 billion by 2002, of which there is \$1 billion of core long-distance SG&A savings in 1999 growing to \$1.3 billion in 2002, with the remainder coming from local savings. Of core SG&A savings, roughly one-third comes from corporate overhead, one-third comes from network operations—since there are systems that could be married together—and one-third comes from IS and IT savings. These savings are mostly on the WorldCom side, since WorldCom will not have to develop many of the software systems that MCI already has. Given that the SG&A savings in total only account for about 9%-10% of total SG&A expense over the 1999-2002 time period, we believe that this is a figure that will likely be surpassed especially when one considers WorldCom's track record where in past mergers WorldCom realized closer to 13%-14% savings of total SG&A. It should be noted that no layoffs are included in the SG&A synergies since as a growth company, WorldCom consistently adds to its work force. In fact, in 1997 WorldCom realized synergies on MFS of \$357 million, \$100 million more than they signaled to the Street a year ago—despite adding a net 3,000 employees. In addition to core SG&A savings, we believe WorldCom will realize an additional \$300 to \$400 million per year in MCI local SG&A savings as WorldCom can eliminate duplicate city managers, staff requirements, and systems work geared towards Bell interconnection and building entrance facilities.

Domestic Network Savings

Domestic network savings are projected to total \$800 million in 1999 and grow to \$2.6 billion by 2002 and can be categorized by fixed costs (monthly fees to access other carrier networks) and variable costs (metered, per-minute or per-call fees) which we describe in rigorous detail in the following pages. Of the domestic network savings, \$100 million in 1999 and \$800 million in 2002 are derived from network savings for MCI local driven by differences in

WorldCom versus MCI local footprints and the resultant lower reliance on resale/unbundled network elements from the Bells. The remainder of the domestic network discussion will concentrate on long-distance network synergies where the bulk of the savings are derived (long-distance network synergies are \$700 million in 1999 going to \$1.8 billion in 2002). Domestic network synergies from the combination of WorldCom and MCI fall into fixed line charges of which there are four categories (off-net costs, entrance facilities costs, dedicated access/local loop charges, and direct end office trunking (DEOT) costs) and savings associated with variable costs such as switched access costs, in-WATS (or "wide area telecom service") costs, domestic WATS costs, non-contiguous WATS costs, directory assistance costs, and debit card costs. In 1999 the fixed and variable components of domestic network savings are roughly equal but by 2002 variable cost savings will represent about two-thirds of domestic network savings.

Fixed Domestic Line Costs

We believe the reduction in off-net costs accounts for roughly 10% of domestic line synergies.

OFF-NET COSTS. Off-net costs are monthly fees incurred by WorldCom or MCI when leasing a line from another long-distance company to provide service on specific corridors where WorldCom or MCI has customers but not enough room on its own network to handle all the traffic. This is a frequent occurrence among all long-distance carriers (none of whom carry 100% of their traffic on-net) where they will lease a dedicated circuit between city pairs, where their particular network does not have enough circuits but a given carrier does not want to do new construction on a particular route. WorldCom is expecting to reduce its projected off-net costs after the MCI merger by moving its off-net capacity that is on the long-distance networks of other long-distance carriers to MCI's long-distance network. Currently, approximately 20% of WorldCom's off-net capacity is on MCI's network and we believe that WorldCom could move up to 70% of its off-net capacity not already on MCI's facilities gradually onto MCI's facilities. In addition, MCI will be able to save costs by moving more of its off-net capacity onto WorldCom's long-distance network, which becomes particularly compelling as WorldCom completes its planned network build. MCI currently has 15% of its off-net capacity on WorldCom and we estimate that 35%-50% of MCI's off-net capacity will ultimately be on WorldCom's network. The total impact to the synergy line from reduced off-net costs (both on the WorldCom and MCI side) probably equates to about 10% of the projected total domestic long-distance network savings for 1999 (dropping to 8% by 2002) or about 20% of the fixed line cost savings.

We believe the reduction in entrance facilities costs accounts for roughly 20% of domestic line synergies.

ENTRANCE FACILITIES COSTS. Entrance facilities costs are the monthly fees paid by long-distance companies when they lease a line from an RBOC² or a LEC³ that connects the LEC's serving wire center (location on a LEC network where an IXC's traffic enters or exits the LEC network; see Figure 7) with the long-distance company's POP⁴. MCI will be able to reduce its projected entrance facilities costs after the proposed merger by moving its entrance facilities capacity that is on the local networks of other carriers to WorldCom's and Brooks Fiber's local networks. After the merger is completed, we estimate that WorldCom's local network (i.e., MFS) could provide 65% of MCI's entrance facility capacity with Brooks Fiber's local networks providing an additional 5% for MCI. Thus, as of today WorldCom can provide 70% of MCI's local entrance facility capacity and given the current expansion plans of MFS and Brooks, by 2002, 90% of MCI's entrance facility capacity will be provided for by WorldCom's local network assets. We assume WorldCom's local networks do not currently provide any of MCI's entrance facility capacity (nor does MCI do it themselves) but by the end of 1999 50% of MCI's entrance facility capacity should be on WorldCom local networks with 100% by 2001. Therefore, the savings are quite significant and probably are responsible for slightly over 20% of the projected total domestic long-distance line cost synergies from the merger.

DEDICATED ACCESS/LOCAL LOOP CHARGES. When long-distance companies provide a customer with a private line between different cities, they lease a dedicated access line (DAL) or local loop (LL) from a LEC. A DAL typically connects an end user to a long-distance switch and these dedicated lines bypass the LEC's local switched network. DALs are essentially dedicated originating access that cost less than switched access if volumes are sufficiently large. Similarly, a local loop provides non-switch connection between an IXC and an end user. When a long-distance carrier provides a customer private line service between cities, that long-distance carrier typically leases a local loop at either end of the private line to complete the non-switched connection for the end-user.

² RBOC - Regional Bell Operating Company (Ameritech, Bell Atlantic, BellSouth, SBC Communications, and U.S. WEST).

³ LEC = Local Exchange Company (the largest in the U.S. are the RBOCs and GTE).

⁴ POP = point of presence. The long distance company's office within a particular LATA (local access and transport area) where traffic on the company's network is routed to and from a LEC's local network.

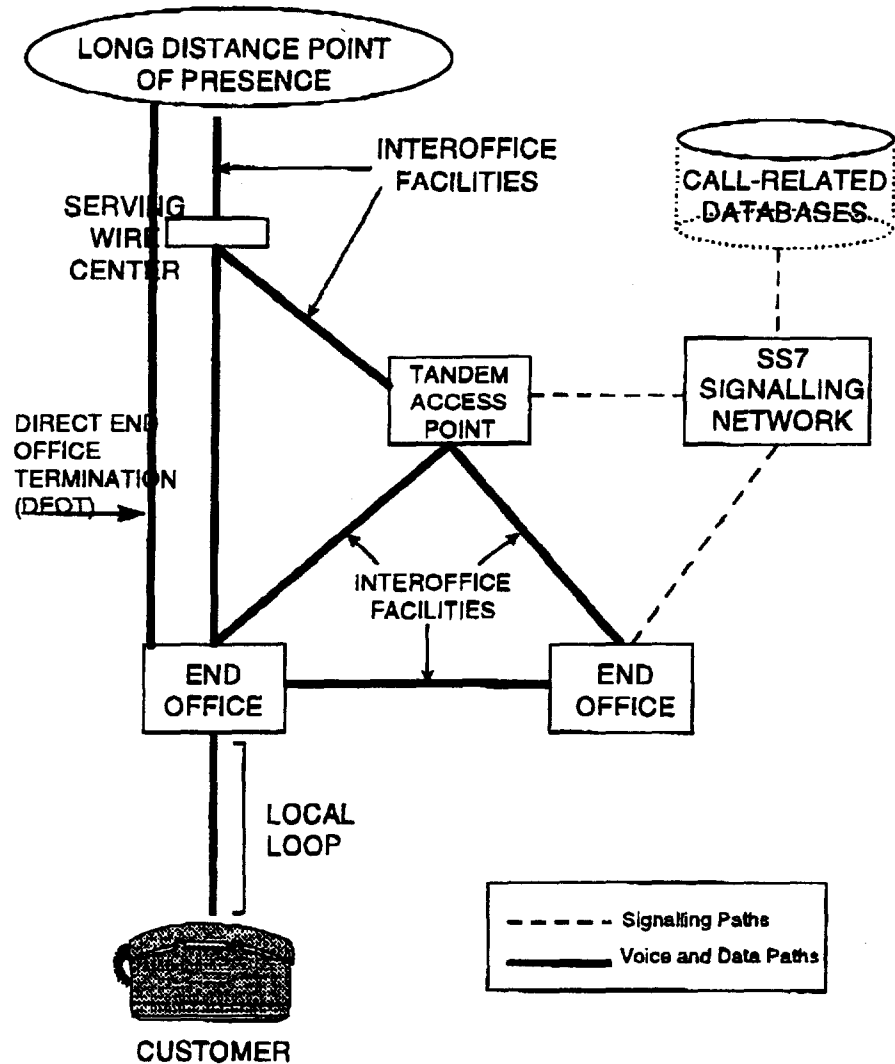
Synergies appear as MCI moves its DAL and LL capacity onto WorldCom's MFS and Brooks Fiber local assets and furthermore as WorldCom's CLEC⁵ operations expand, the savings continue to increase. This synergy item is a direct function of WorldCom's building entrances. Today WorldCom has fiber into and up the risers in over 6,000 buildings with this figure increasing by 3,000 per year. WorldCom has fiber in front of 24,000 buildings where it has a T-1 or DS-3 connection or where it will spur off the fiber directly with the number of these buildings increasing 7,000 per year. Currently, WorldCom provides MCI about 2% of MCI's DAL and LL capacity but over time, virtually all of MCI's DAL and LL capacity should go to WorldCom local networks since 90% or more of MCI's business users who use dedicated local facilities are in WorldCom direct or indirect buildings.

DIRECT END OFFICE TRUNKING COSTS. On the domestic network side in the long-distance area, long-distance companies enter Bell networks through a wire center and can terminate into Bell facilities at one of two places—either an access tandem point where most of the second-and third-tier carriers terminate or into what is known as direct end office termination or DEOT, where AT&T and MCI and to a large degree Sprint tend to terminate (see Figure 7). Termination via access tandems routes a call from a wire center through the tandem to one of several end offices connected to a tandem and ultimately to an end user. This route is billed on a per-minute basis and is a subpart of switched access costs.

In contrast, the DEOT route, as seen in Figure 7, goes directly from an IXC POP to a LEC end office and this part of access is a fixed monthly fee and is a subpart of dedicated access. If one terminates on a DEOT basis versus on an access tandem basis, one is terminating deeper into a Bell network and hence saves a portion of switched access costs (if we wanted to be picky we could have put DEOT in variable cost savings). MCI has direct end office termination about 80% of the time (similar to AT&T), whereas WorldCom has over 50% of its termination at the access tandem point. Hence, as WorldCom takes its traffic to MCI's DEOT termination points there are savings to be realized. We would expect 75% of WorldCom's traffic can go on MCI DEOT routes.

⁵ CLEC - competitive local exchange company (WorldCom's CLEC operations include MFS and Brooks Fiber, MCI's CLEC operation is MCImetro, publicly traded CLECs include ICG Communications, Intermedia Communications, NEXTLINK, MCIend Inc., MetroNet, Teligent, RCN, WinStar, etc.)

Figure 7. Points of Interconnection to Local Network



Source: Smith Barney Inc./Salomon Brothers Inc

Variable Domestic Line Costs

The largest portion of domestic line cost savings comes from MCI putting originating and terminating access onto WorldCom's facilities.

SWITCHED ACCESS COSTS. Switched access is obviously the single largest expenditure of a long-distance carrier and hence, the source of the greatest synergy potential. WorldCom has operating networks between Brooks Fiber and MFS in over 100 markets and more importantly, has fiber into 5,400 buildings (versus MCI's 600), up the risers and all, with fiber in front of another 22,000 buildings with direct connectivity into those buildings (as opposed to MCI's 1,700). WorldCom is adding 8,000 to 10,000 buildings a year to this count. Furthermore, WorldCom with MCI will have 88 local switches, 3.3 million domestic local switch ports, and is already co-located into almost 350 Bell end offices, with local switched ports and co-locates more than doubling each year. We estimate that 90%+ of MCI's major,

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national, and global accounts reside in buildings where WorldCom has fiber into or in front of and that a good chunk of MCI's mass market business customers can be reached via unbundled loops off of WorldCom's co-locates with Bell end offices.

The potential to put MCI originating and terminating switched access⁶ onto WorldCom's facilities as time goes on not to mention all new customers from the get-go being carried on WorldCom's local facilities probably equates to close to 40% of the total projected domestic long-distance line cost synergies in 1999 growing to almost 70% of the 2002 projected domestic long-distance line cost synergies. This is because MCI should go from having essentially no switched access on WorldCom local facilities to having close to 40% of its switched access on WorldCom local facilities by 2002, which nets huge savings. This of course does not even include revenue synergies by putting MCI's customer base onto WorldCom for local service, something that is not in our numbers but clearly is an upside to our earnings forecast.

DOMESTIC WATS COSTS. Long-distance companies incur domestic WATS costs (sometimes called out WATS or overflow WATS) when they pay another IXC to terminate a domestic call. This stems from having overflow traffic on routes where a particular IXC has not leased a dedicated "off-net" circuit. After the merger, WorldCom and MCI will be able to reduce their projected domestic WATS costs by optimizing their WATS rates with other long-distance carriers—probably to the tune of a 5% rate reduction.

IN-WATS' COSTS. Long-distance companies incur In-WATS costs when calls originate on another IXC's network and are delivered to its own network. For example, if a customer places an "800" call in Alaska to a WorldCom customer, WorldCom pays a per-minute or per-call fee to the IXC in Alaska to deliver the "800" call to WorldCom's network. Savings are generated since MCI currently enjoys better In-WATS rates than WorldCom because of its higher In-WATS traffic volume and thus, WorldCom can optimize its current In-WATS rate schedule. In addition, MCI has facilities and/or agreements with other carriers in more geographic regions than WorldCom, hence at the margin there will be fewer "In-WATS" charges, since traffic will originate more on "owned" facilities. Also, the combined company could achieve additional savings by taking advantage of its greater purchasing power, resulting in a 10% reduction in WorldCom In-WATS rates and a 5% decrease for MCI.

⁶ Switched access costs are the charges long distance companies incur when they use the local switched network of a LEC to originate or terminate a long distance call.

⁷ WATS - wide area telecommunications service.

NON-CONTIGUOUS WATS COSTS. Long-distance companies incur non-contiguous WATS costs when they pay another IXC to terminate a call outside of the continental U.S. but within Alaska, Canada, Hawaii, Puerto Rico or the Virgin Islands. Similar to In-WATS savings, the combined company has greater purchasing power and WorldCom can take advantage of MCI's facilities and/or relationships with other carriers. All in, the combined company can see a 5%-10% reduction in these rates. The combination of domestic WATS, In-WATS, and non-contiguous WATS amounts to savings of only about \$30-\$40 million per year but, represent the type of long-haul savings this combination can achieve by leveraging one another's network reach and existing carrier relationships.

DIRECTORY ASSISTANCE COSTS. Long-distance companies pay directory assistance costs to LECs for providing directory assistance services to their respective long-distance customers. For example, if a New Jersey WorldCom customer calls directory assistance in Washington D.C. by dialing "1-202-555-1212", WorldCom pays a LEC in Washington D.C. a per-call fee for providing the service. Again, the synergies in this category arise from the combined company having greater purchasing power.

DEBIT CARD COSTS. WorldCom currently pays a third-party vendor a per-minute or per-call fee to process calls made on its debit cards. After the merger, WorldCom will be able to use MCI debit card platform, resulting in savings of roughly 5% of total domestic long-distance synergies.

International Line Cost Synergies

International savings are created as MCI terminates on WorldCom's facilities in Europe and as WorldCom puts international traffic onto MCI's operating agreements throughout the world.

On the international side there are similar very hard and identifiable synergies, which are projected to be \$400 million in 1999 growing to \$1.3 billion in 2002. The synergies are divided between lower MCI costs from terminating on WorldCom's non-U.S. facilities and lower WorldCom costs via MCI direct agreement routes. In 1999, about 47% of the savings will be derived from lower MCI costs, which by the year 2002, will account for 60% of the total international synergies, as MCI's international traffic grows and as WorldCom builds out more international networks in Europe and Asia. MCI probably generates 30%+ of its entire international traffic to Europe where, in virtually all cases, WorldCom has switches, facilities and interconnection agreements with all the major European countries where MCI terminates traffic.

When a carrier terminates traffic into a foreign country, typically a U.S. carrier is paying a significant rate per minute to terminate, even net of return traffic. As Figure 8 illustrates, the normal way a U.S. carrier carries traffic to another country is to connect into a PTT switch, pay a settlement rate and then pay a domestic transport rate. Since the U.S. generates more outgoing calls than incoming calls (an 8 billion minute deficit), and has a lower settlement rate, the U.S. in total has a \$5 billion international deficit in voice traffic.

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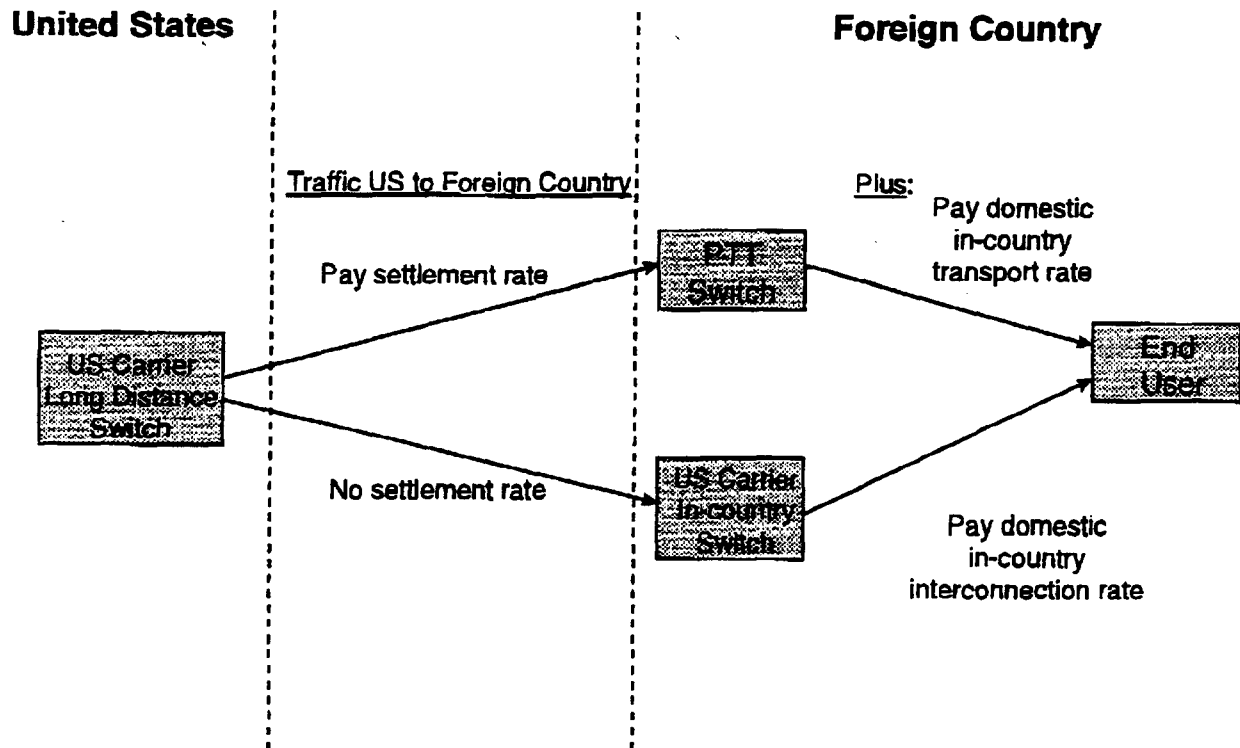
As MCI begins to terminate more traffic on WorldCom's facilities, that cost of termination can decrease by as much as 70%. This is because MCI can now terminate on WorldCom's switches in Europe and Asia and avoid paying net settlement rates, while at the same time the cost of in-country transport becomes limited to the domestic interconnection rates that WorldCom pays in those countries. This is opposed to the domestic in-country transport rates, which are different and higher than in-country interconnection rates. Basically, the MCI savings is a function of WorldCom having 382,000 international local and long-distance switch ports and a full contingent of pan-country networks in Europe and in parts of Asia.

The other portion of the international revenue synergies relate to WorldCom using MCI's operating agreements. MCI has operating agreements with 240 countries, whereas WorldCom has operating agreements with 60 countries. Thus, as WorldCom puts international traffic that it currently has to terminate via resale onto MCI's facilities, there are not only cost savings by definition, but also the combined entity gets more return traffic as a result.

Synergies—A function of WorldCom and MCI doing what they do every day.

Thus, it is clear from the discussions of both domestic and international areas of synergies that the synergies are not only clear but actually will be rather easy to execute, since we are really talking about the basic elements of network engineering—namely regrooming networks to handle traffic loads which is when one thinks about it, the business that WorldCom and MCI are in every day.

Figure 9. International Network Alternatives



Source: Smith Barney Inc./Salomon Brothers Inc

Integration

The integration of the salesforces is straightforward.

As far as the integration of the companies are concerned aside from the synergies, again, we believe this will be very straightforward. MCI has 6,500 sales personnel all of whom sell to accounts that are \$5,000-\$10,000 per month or more. Of MCI's \$11 billion in commercial revenue, \$9 billion comes from either major accounts, national accounts, global accounts or the government whereas only \$700 million of this \$11 billion comes from mass market businesses of less than \$2,000 per month. In contrast, of WorldCom's revenue base, virtually all of the domestic long-distance revenues are derived from the smaller to medium-sized business customers, with WorldCom's average account size being \$1,400 a month. Thus, WorldCom's 2,000 salespeople tend to be concentrated in the lower end of the business market. Not only will there not be any integration problems with the sales force, the combined sales force fits like a glove in covering the complete gamut of business customers from the low end to the very major level accounts.

Network integration should go smoothly.

On the network side, we believe the network integration will go quite smoothly since each other's networks were built for different capabilities to

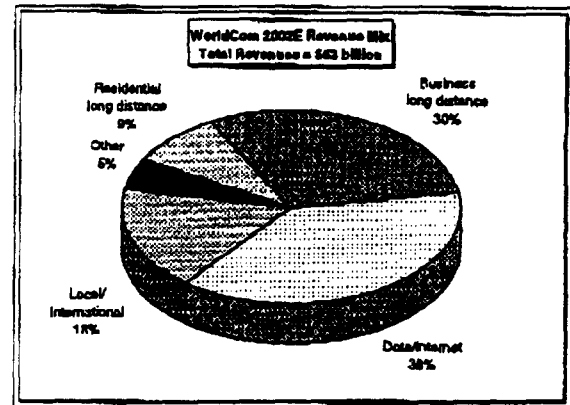
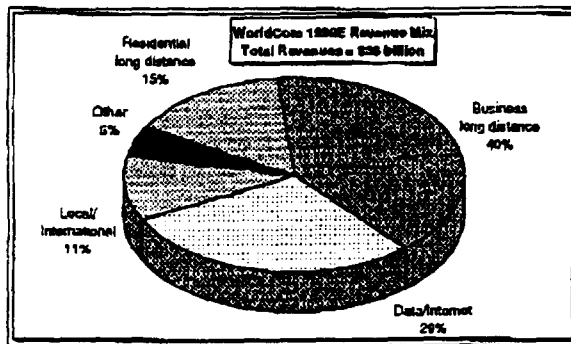
serve different types of customers. On a going forward basis, the combined company can plan much more efficiently for network growth and modernization. Of course, WorldCom's greatest network assets are its local networks, its Internet backbone, and international network—network assets which MCI largely does not have. We also believe the sales effort under the leadership of Tim Price and Steve Dobel and the network effort under the leadership of John Sidgmore and Fred Briggs will clearly result in a very powerful revenue driving engine, since these executives have proven track records in the sales and network areas.

Revenue Mix Skewed the Right Way

WorldCom pro forma for MCI in 1999 will be a \$38 billion company with five year top line growth of 17% per year. The reason that the growth rate can be so high has to do with the revenue mix of the new entity. On one dimension, WorldCom itself will represent over 40% of the revenues and since WorldCom is growing at a 30% clip mathematically the numbers work. More importantly though, it is interesting to look at the revenue distribution pro forma for 1999 and where it is going to over the next few years (please refer to the annual revenue model Figure 18 at the end of this report). In addition, as we discuss below, our assumptions of growth rates for each revenue category are quite reasonable, lending credence to the aggregate 17% per annum revenue growth rate forecast. Furthermore, we have no revenue synergies in our forecast and if MCI, over time, can capture 25%-30% of its existing customers' local revenues, that alone takes revenue growth to well above 20% per year.

For 1999, we estimate that for the new company only 15% of the revenues will be residential long-distance revenues which are clearly the most commodity-like and slowest growing part of the revenue stream. Another 40% of revenues will be business long distance, including commercial and wholesale, of which commercial will represent 75% of that number. Thus, in 1999 domestic long distance will still represent about 55% of the revenue stream. However, over 15% of the revenues are in data, 10% in Internet, roughly 5% in international (75% to 80% of which is true international non-U.S. originating and terminating revenues, mostly U.K. and Germany at the present time, as opposed to return traffic) and about 5% of the revenue stream is local with another 5% or so in non-core revenues.

Figure 9. WorldCom Revenue Mix Comparison 1999E-2002E



Source: Smith Barney Inc./Salomon Brothers Inc

The revenue mix for WorldCom will become increasingly skewed away from the most vulnerable part of a long-distance portfolio—residential long distance, which is especially true as Bells enter the market.

If one looks out to 2002, the mix changes quite favorably (see Figure 9 above). We estimate that by 2002 residential long distance will be less than 9% of total revenues, business long distance will be roughly 30% of total revenues—meaning domestic long distance will definitely be solidly below 40% of total revenues. In contrast, both data and Internet will each be about 20% of revenues, international should approach 10% of revenues and local should approach 10% of revenues.

Specifically, over the next few years, we have residential long distance declining by about 1% each year in deference to Bell long-distance entry, even though MCI's residential base is less vulnerable than AT&T's. We also have business long-distance revenues growing at only a 7%-8% annual clip, roughly half the current growth rate for WorldCom/MCI combined in the business long-distance area bringing total switched long-distance revenue growth to about 5% per annum, going forward—hardly, a heroic effort. However, we do have data growing at 21% per year and Internet growing at 40% per year—strong growth rates that frankly, we would expect to be conservative given the demand for broadband services. In fact, our forecasted growth rates for data and Internet are less than half the current growth rates of these services and we doubt growth in these categories will halve overnight.

We have both local and international growing roughly 41%-42% per annum, between 1999 and 2002, with international being driven by true non-U.S. traffic growth on WorldCom's still expanding international, in-country and pan-continent network presence, such that the return traffic portion of international will be 5% or less by 2002 down from 20% today. The bulk of the growth rate in international will be derived from non-U.S. originating and non-U.S. terminating traffic on WorldCom's much broader array of local and pan-country networks. As for our local service forecast, by 2002, our estimate for WorldCom local service revenues will represent well below 10% of the business local market share, a share count, we doubt Bernie Ebbers will tolerate.

In fact, if one looks at all of WorldCom's addressable markets (i.e. U.S. long distance, 70%-75% of U.S. business local, Internet and international business markets in Europe and Asia, where WorldCom has facilities), our revenue forecasts imply that WorldCom only attains 20%-25% of the incremental growth of these markets. We estimate the target market size that WorldCom is addressing directly with its facilities is roughly \$350 billion to \$450 billion. We estimate that the market grows in absolute dollar terms by \$30 billion to \$35 billion per year versus our estimates for WorldCom absolute revenue growth of roughly \$7 billion per year.

Considering that MCI itself has attained over 40% of the incremental growth in the U.S. long-distance market since 1990, with much less of a unique set of assets and nowhere near the head-start versus AT&T and Sprint that a WorldCom enjoys versus other carriers today, our revenue assumptions clearly seem low. The fact that MCI garnered so great a share of the incremental growth without having a unique set of assets, is a testimony to MCI's historic strengths in marketing and merchandising and in systems capabilities which lead to development of sophisticated product sets. One can only imagine MCI applying these historic strengths to WorldCom's truly unique sets of assets and going after a much larger market opportunity.

Revenue mix change drives margin expansion.

The point here is that the movement in revenues is being driven by services that are either already high-margin, low-churn services such as data and IP, or are services where the margins will likely explode as WorldCom leverages capital that has already been deployed by ramping revenues over fixed assets, most notably in the U.S. local markets and the international markets. Specifically, gross margins in data/IP run 75% vs. 35%-40% for long distance voice with data, having very little SG&A relative to voice and almost no churn. In addition, EBITDA margins among the PTTs¹ and Bells run at

¹ PTTs-Post Telephone and Telegraphs - traditionally, the monopoly government owned-telephone service providers in most foreign countries.

least 60% in business markets, cash flow margins typically, on average, double to triple that of long distance. Thus, WorldCom enjoys a double benefit in local and international, namely leveraging fixed assets while attacking the highest voice margin business in the world.

Most importantly, the revenue mix for WorldCom will become increasingly skewed away from the most vulnerable part of a long-distance portfolio – residential long distance, which is especially true as the Bells enter the market. However, it should be noted that 90%+ of MCI's 15 million residential customers utilize one or more MCI programs (for instance, MCI captures 95% of the frequent flyer mileage users who tie frequent flying to their long-distance calling plan). In fact, one-third of MCI's \$5.7 billion residential revenues come from transactional revenues which will be impossible for a Bell to steal since they are generated on a call by call basis. Hence, even in residential long distance, MCI is somewhat insulated, a fact that has been borne out by the evidence of GTE, SNET and Century Telephone, all getting well over 80% of their residential long-distance customers out of AT&T, despite AT&T only having 60% of their market.

The upshot of the revenue mix is that WorldCom starts out today with the highest proportion of revenues in the data, IP and international space with this proportion rapidly moving in a more favorable fashion. Also, as we said, the revenue growth is being driven by services that have higher sustainable margins, lower sustainable churn or services like local and international, where assets which have been deployed will be fully leveraged to drive margins and profitability.

We Continue to Expect a Mid-Summer Close—A Little Primer on the Internet

There has been a lot of noise about the Department of Justice and European Union activity on the WorldCom front. In a nutshell, we fully expect this deal to close on time in the middle of the summer and we believe that the Department of Justice's inquiries into Internet will result in the conclusion that neither WorldCom/MCI nor anyone else has a dominant position in the Internet. In fact, given that Sprint itself on its Web page claims to carry 50%-60% of the IP traffic globally, we find it difficult to believe that they could object to the WorldCom deal. Similarly, GTE which has 24 strands of fiber from Qwest and ownership of BBN, itself a Tier I peering Internet provider, also seems a bit hypocritical in its objections. With the fiber builds of Qwest, IXC, Williams and Level 3 plus with no shortage of routers being manufactured by the likes of Cisco, the notion that any one entity can control Internet backbones—which are simply routers hooked to fiber—is preposterous. Furthermore, the notion that anyone, even Bill Gates or John Chambers, can differentiate what goes on these fiber routes, be it IP, e-mail or even voice is nonsense. Actually, if one perused the Websites of major

telecom carriers around the world, one would get IP traffic market share of 290% if all the claims by each carrier of what they carried of IP traffic were added together. Clearly, this is proof that nobody can accurately count IP packets.

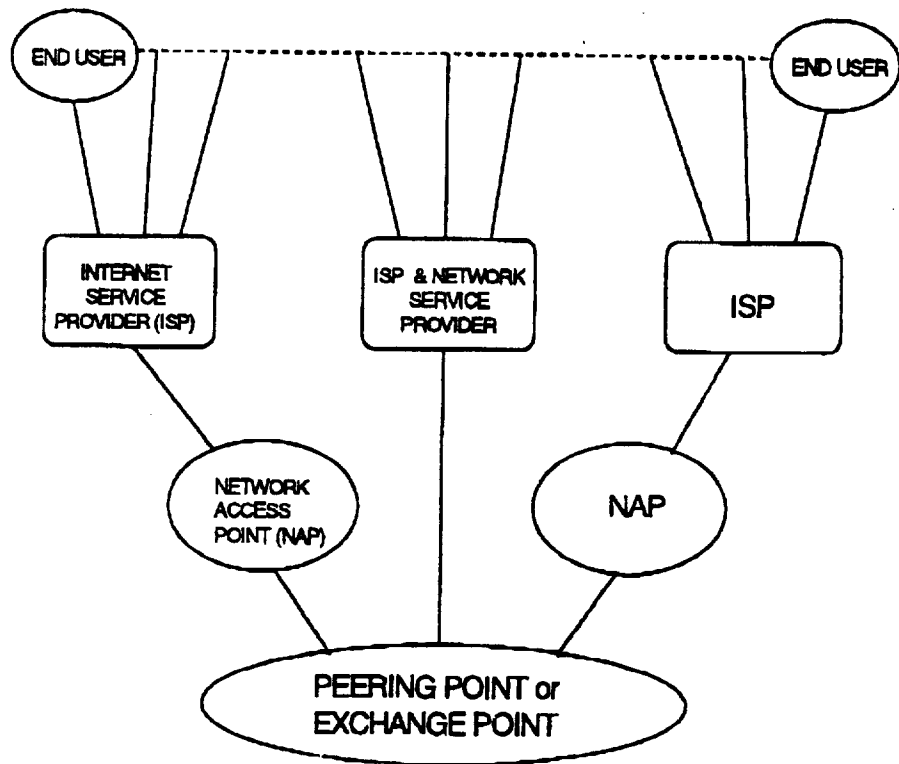
In Figures 11 through 13, we attempt to display the inner skeleton of Internet traffic flows. Specifically, an end-user accesses the Internet via an ISP, which then connects into a network access point (NAP) where fees are collected to aggregate and distribute IP packets. These NAPs are really the nodes that play traffic cop on the Internet. As Figure 12 illustrates, the WorldCom family of companies (including MCI) only control 14% of these locations with this percent dropping on a daily basis, as more NAPs are created. Once an IP packet leaves a NAP, it goes to one of eight or nine IP peering points where IP packets are exchanged at the highest network level. These Metropolitan Area Exchanges or Federal Agency Interexchange Points are the true critical path for Internet transport. The fact is that the eight or nine peering points of the Internet (which are displayed in Figure 13) are not controlled by any corporate entity but rather are housed in academic and non-profit scientific institutions such as National Center for Atmospheric Research, Cornell University and the National Center for Super Computer Applications. No company has control of these peering points, although all Tier 1 peering ISPs (be it GTE/BBN, Sprint or WorldCom) have facilities in each of these peering points. In fact, GTE itself (which is one of the irritants against this deal) claims in its corporate advertising to be building an Internet backbone 100 times the size of the current Internet.⁹

Thus, we believe that once the exercise is over at the DOJ, the conclusion will be what it should be—that there is no issue with dominance in the Internet space. As we said, we expect a mid-summer close with no onerous concessions as a result of the DOJ investigation. Specifically, we believe the DOJ is most concerned that small ISPs who currently rely on UUNET for access and egress to the Internet are guaranteed service reliability. Thus, we believe the DOJ will want WorldCom to guarantee continued service provisions and access to these small ISPs. We do not believe the DOJ is particularly sensitive to the likes of GTE, since GTE is a major entity in and of itself with control of an Internet backbone, which GTE itself claims will be 100x the size of the current Internet.

On the FCC and state regulatory front, we believe that this will go rather smoothly since a WorldCom/MCI merger truly is a merger that legitimizes the Telecom Act of 1996, as it creates a fully integrated telecom competitor in the local markets.

⁹ Barron's, March 30, 1998, p.3.

Figure 11. Internet Traffic Flows



Source: Smith Barney Inc./Salomon Brothers Inc

Figure 12. Major North American Internet Backbone Providers

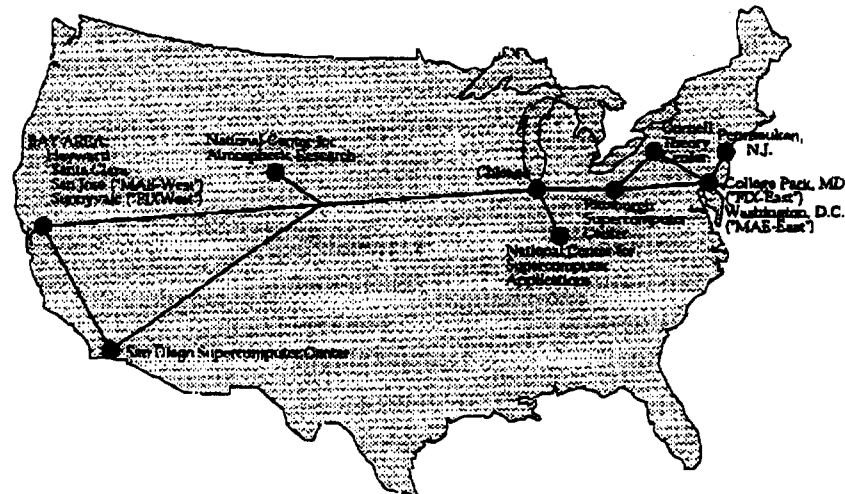
	Backbone Speed	NAP Connections	
ACSI	T3	3	
AGIS	T3/OC3	6	
ANS*	T3	4	*WorldCom owned
AT&T	T3	4	
BAC	OC3	1	
BBN	T3/OC3	6	
Cable & Wireless	T3	4	
CompuServe*	T3	4	*WorldCom owned
CRL	T3	6	

Figure 12. Major North American Internet Backbone Providers

	Backbone Speed	NAP Connections	
ACSI	T3	3	
AGIS	T3/OC3	6	
ANS*	T3	4	*WorldCom owned
AT&T	T3	4	
BAC	OC3	1	
BBN	T3/OC3	8	
Cable & Wireless	T3	4	
CompuServe*	T3	4	*WorldCom owned
CRL	T3	6	
Dataexchange	T3/OC3	3	
Digex	T3	6	
DRA Net	T3	5	
Epoch	T3	9	
Fibernet	T3	3	
Genuity	T3/OC3	9	
Geonet	T3	5	
Global Center	T3/OC3	10	
Goodnet	T3/OC3	5	
Gridnet*	T3	3	*WorldCom owned
IBM	T3	5	
Icon	T3/OC3	8	
MCI*	OC3/OC12	7	*WorldCom owned
Nap.Net	OC3	3	
Net Access	T3	3	
Netcom	T3	6	
Netrail	T3/OC3	8	
PSInet	T3	4	
Savvis	T3	-	
Sprint	OC3	8	
TCG Cerinet	T3/OC3	6	
UUNet*	OC3/OC12	5	*WorldCom owned
Visinet	T3	2	
Total NAP Connections		159	
WorldCom owned		23	
% of Total		14%	

*Owned by WorldCom
 NAP = Network Access Point
 OC3 = 155 Mbps
 OC12 = 622 Mbps
 T3 = 45 Mbps
 Source: Telegeography, Inc.

Figure 13. U.S. Internet Passing Points



MAE=Metropolitan Area Exchange

FIX = Federal Agency Interexchange Point

Source: Smith Barney Inc./Salomon Brothers Inc

Explaining the Models

Overall Model Assumptions

We have mentioned earlier what our earnings forecasts and free cash flow forecasts are as well as our revenue mix changes. The bottom line is that WorldCom will achieve EPS growth (32%) greater than revenue growth (17%) due to positive revenue mix changes towards higher margin services and the realization of on-going synergies. We believe our model has upside to it for several reasons. One, we are assuming no revenue synergies whatsoever in our model and one has to assume that MCI's sales force selling to its existing customers should do easily as well as CLECs today are doing selling into no existing customer base. Thus, we would expect that certainly by the second half of 1999, we will see very significant revenue synergies simply by MCI siphoning off tens of thousands of local access lines from its existing business customer base and as we said the vast majority of MCI's business revenues come from customers who reside in buildings that WorldCom's local facilities service.

We believe we are being conservative in our model assumptions.

The second source of upside surprise in our 1999 numbers is the fact that this deal will close in the middle of 1998 and thus, we will have probably five months of synergies being developed in 1998 to have momentum coming into 1999. Thus, we believe the synergy number for 1999 on the cost side is

likely to be higher. Finally, the third source of upside potentially is that all earnings estimates are based on the middle of the \$29-\$41 collar. Of course, we believe that the likelihood is that WorldCom will be at or above the upper end of the collar and thus, the exchange ratio that we are using of 1.501 shares of WorldCom for each share of MCI at the midpoint of the collar could turn out to be 1.24 shares, which obviously helps pro forma EPS since less shares will be issued.

We should also note in our model that we are assuming a \$3 billion in process R&D charge to be taken at the time of closure. If this charge is somewhat higher, perhaps as much as \$9 billion, it would of course reduce the on-going goodwill hit to the numbers although not on a dollar-for-dollar basis because of the likely recalibrating of depreciation lives. As far as our margins are concerned, we believe that WorldCom's EBITDA margins, which currently are 30% will gradually rise to the mid-30s over the next few years which corresponds to the change in the revenue mix when one considers that the driver of revenues are services such as local and international as well as data and IP that have EBITDA margins significantly higher than those found in the domestic long-distance area.

In the sections that follow, we explain the various models which are included at the end of the report (in this section, we also include a capital expenditure break down for 1997 and 1998 for WorldCom, Brooks and CNS & ANS, with a discussion about MCI). We include revenue breakdown by service category models on a quarterly basis for 1998 (without MCI, Figure 16) and an annual basis for 1999 to 2007 (pro forma including MCI). In addition, we include a quarterly 1998 WorldCom (without MCI) earnings model (Figure 17), as well as an annual 1999 to 2007 WorldCom pro forma for MCI earnings model (Figure 19). Finally, we display a quarterly aggregate and core long distance 1998 earnings model for MCI - standalone in Figures 21 and 22. Last, but not least, we have included a 10 year discounted cash flow model for WorldCom in Figure 20, which gives credence to our price targets.

Revenue Models, Figures 16 & 18

FIGURE 16. QUARTERLY REVENUE MODEL. We display a quarterly 1998 revenue model (Figure 16) to back up our assumptions in our quarterly 1998 earnings model (Figure 17). The quarterly model breaks out CNS/ANS and Brooks Fiber revenues. The Brooks Fiber merger closed on January 29th, 1998 and is pooling therefore 1998 reflects a full year of Brooks' results. We have not yet restated 1997 for Brooks Fiber. The CompuServe/ANS merger closed on January 31st, 1998 and is purchase accounting therefore the first quarter of 1998 includes two months of CNS/ANS results. We leave CNS/ANS and Brooks as separate line items in this model to highlight the growth rates of standalone WorldCom.

We have not included MCI in this model, since MCI is also a purchase transaction. Thus, WorldCom's 1998 income statement will not be restated for the full year to account for MCI. However, as seen in Figures 21 and 22 (MCI earnings models) we will point out that for 1998, we estimate that MCI will have \$21.4 billion in total revenues (8% above 1997) with core long-distance revenues of \$18.4 billion (only 4.5% above 1997) and we are estimating standalone 1998 EPS for MCI of \$1.10, essentially flat with 1997, with an EPS estimate of \$0.19 per share for 1Q98 vs. \$0.42 in 1Q97, but above 4Q97's \$0.10 per share. Also, as seen in Figures 21 and 22, we are assuming no acceleration in either overall or core long-distance revenue growth for MCI in 1999 vs. 1998 and our implied EPS for 1999 for MCI, which is embedded in our WorldCom model, is only \$1.30 per MCI stand alone share.

FIGURE 18 ANNUAL REVENUE MODEL When WorldCom begins to report combined financials, the company will place the revenues from MCI, CNS/ANS, and Brooks into WorldCom's traditional disclosure categories (Domestic Switched, Domestic Private Line, International, and Internet) which we estimate in Figure 18. We attempt in Figure 18, to peel the onion back even further by attempting to split Domestic Switched revenues into business long distance, residential long distance and local. As you might expect, this is not an exact science since when combining companies there are always restatements to conform to the acquiring companies accounting methods of calculating revenues (one example is that bad debt can either be netted out of revenues or taken out of expenses). In any event we estimate what the revenue line items will look like including the acquisitions in Figure 18.

For Figure 18, we place the full amount of CNS/ANS revenues into the Internet revenue line which is the logical place for 100% of these revenues. For our purposes, we place 100% of the Brooks Fiber revenues into the domestic switched local category, although there may be a small amount which may be categorized as private line revenues. For MCI in 1999, we estimate that 73% of MCI revenues should be placed in the domestic switched services category, 17% in domestic private line/data revenues, 2% in Internet, and 8% in other since these revenues relate to SHL Systemhouse. Overall, we have MCI's revenues growing at a single digit rate beyond 1999 and in general, we feel the result of our revenue analysis shows the conservative nature of our estimates. We have pro forma Business Long Distance Switched Services growing at 8% from 1999 onward (half the current pro forma growth rate) and Residential Switched long-distance revenues shrinking 1% per year, attempting to reflect a more competitive environment.

Margin Analysis

The revenue mix analysis leads to the jump in margins we are projecting for the combined company. Specifically, we see gross margins rising from 52.6% in 1999 up to 56% in 2002 and EBITDA margins rising from 31% in 1999 to 36% in 2002. As shown in the annual revenue model, Figure 18, data and Internet revenues are growing at over twice the growth rates of voice. Data and Internet are higher margin businesses relative to traditional voice due to the relatively smaller amount of SG&A required for these businesses, as well as having lower transport costs relative to prices and not having to pay switched access fees. In addition, international and local revenues (also growing at more than twice the rate of long-distance revenues) are higher margin businesses as well. In local, WorldCom's CLEC operation is targeting businesses of the RBOCs, which currently have EBITDA margins in the 40% range for the combined company and business EBITDA margins (where WorldCom is targeting) in the 60% range. Similarly with international revenues, WorldCom is targeting the margins of the foreign PTTs with EBITDA margins in the 50% range and operating margins in the 30% range. Furthermore, WorldCom's margins will rise as the company is leveraging assets which were recently deployed. In other words, as time passes on the operations of MFS, Brooks Fiber, Europe, and Asia will mature and boost the margins of the overall combined company. Furthermore, as the portion of revenues coming from residential long distance (a lower relative margin business) shrinks from 15% in 1999 to under 9% in 2002 margins are enhanced.

Annual 1997A-2007E Income Statement, Figure 19

We reflect MCI in Figure 19 starting in 1999.

We still anticipate that the MCI merger will close this summer but we wait until 1999 to reflect MCI's results in our model. WorldCom is guiding analysts to wait until 1999 to add MCI into earnings models since a month or two difference in the assumption of timing of closure makes a large difference in the model and therefore consensus estimates will be apples to apples if everyone waits until 1999.

The MCI merger terms in review and shares outstanding calculation.

WorldCom and MCI have reached a definitive merger agreement which translates to a \$51 MCI price. The class A shares held by British Telecom will receive \$51 in cash. MCI common shareholders will receive a fixed price of \$51 per share within a collar of prices for WorldCom of \$29 to \$41 and a floating price, fixed exchange ratio outside the collar. The fixed exchange rate above \$41 per WorldCom share is 1.2439 and the fixed exchange rate below the collar (\$29 per share) is 1.7586. At \$35 the midpoint of the range the exchange rate is 1.501. To be conservative, in our model we assume the midpoint of the range although we do believe WorldCom's stock price will be higher at the time of deal closure which implies lower shares outstanding and higher earnings per share. To calculate shares outstanding in 1999 we take the 1998 shares of WorldCom (including Brooks and CNS/ANS) of

1.073 billion and add in 583 million common shares (total shares outstanding of 720 million for MCI less 137 BT shares) multiplied by 1.501. The result is our assumption of 1.95 billion shares outstanding for WorldCom pro forma for MCI in 1999, a share count that is likely to be proven too high.

MCI is a purchase accounting transaction.

Since MCI is a purchase accounting transaction, there is a significant goodwill charge. The equity value of MCI is approximately \$11 billion and the purchase price is \$37 billion. If the resulting \$26 billion of goodwill is amortized over 40 years, the per year amortization of goodwill created in this transaction is \$650 million per year. WorldCom is expected to take a \$3 billion or larger in process R&D charge to reduce goodwill to \$23 billion, but then the depreciable lives would be restated downward for the remaining goodwill and the per year goodwill charge would still likely be in the \$650 million range. However, WorldCom is using something called fair value accounting which will lower current depreciation for WorldCom and MCI by approximately \$500 million per year and therefore the net incremental depreciation and amortization from the MCI transaction is only in the \$150 million range.

Fair value accounting (which MCI had been working on with BT) takes independent appraisals into consideration when valuing communications equipment and software, and writes down to "fair value" the equity associated with a piece of equipment. The consequence of this is that MCI's book equity value declines because the value of certain equipment is lower. However, this helps EPS calculations because in essence, 15 to 20 year depreciation lives on this equipment is swapped for 40 year amortization of the incremental goodwill caused by the downward revision of book value due to the write down of the old equipment.

LINE COSTS AND OPERATING EXPENSES. WorldCom reported fourth quarter 1997 operating expenses equal to 49.2% of revenues and we are estimating full year 1998 operating expenses to rise slightly to be close to 50% of revenues (including CompuServe and Brooks Fiber). For 1999 including MCI, we are estimating line costs and operating expenses to be 47.4% of revenues including synergies of \$1.2 billion. Excluding the \$1.2 billion in synergies in 1999 (which we detailed earlier in this report in the synergies section), we are looking for line costs and operating expenses to be 50.6% of revenues which is consistent with our previous standalone WorldCom estimate of 50% and standalone MCI estimate of 52%. By 2002, we see line costs and operating expenses falling to 44% of revenues driven by the changes in revenue mix driven by higher margin businesses such as data, Internet, local and international becoming a greater portion of total revenues versus the lower margin business of domestic switched long distance and also due to higher expense synergies from the combination with MCI totaling \$3.9 billion in 2002.

SELLING GENERAL & ADMINISTRATIVE EXPENSES. WorldCom reported fourth quarter 1997 SG&A equal to 20.0% of revenues and we are estimating full year 1998 SG&A to remain basically flat at 19.9% of revenues (including CompuServe and Brooks Fiber). For 1999 including MCI, we are estimating SG&A to be 21.6% of revenues including synergies of \$1.3 billion. Excluding the \$1.3 billion in SG&A synergies in 1999, SG&A expenses are 25% of revenues which is being driven by WorldCom's SG&A of 19% of revenues and MCI's SG&A in the 28% range. By 2002, we see SG&A expenses falling slightly to 20% of revenues mainly for two reasons: First, higher SG&A synergies from the combination with MCI which total \$1.7 billion in 2002 and secondly, the fact that revenues from low SG&A businesses such as data and Internet become a larger portion of total revenues.

EBITDA. WorldCom reported fourth quarter 1997 EBITDA of \$617 million equal to 30.8% of revenues. We are estimating full year 1998 EBITDA of \$3.3 billion (excluding MCI but including CompuServe and Brooks Fiber) for an EBITDA margin of 30.2%. For 1999 including MCI, we are estimating \$11.8 billion in EBITDA or 31% of revenues including synergies from the MCI transaction of \$2.5 billion. Excluding the \$2.5 billion in synergies in 1999 (which we detailed earlier in this report in the synergies section), EBITDA would be \$9.3 billion or 24.5% of revenues which is driven by a WorldCom standalone 1999 estimated EBITDA margin in the 31%-32% range and a standalone MCI 1999 estimated EBITDA margin in the 19%-20% range. By 2002, we see EBITDA margins rising to the 36% range driven by the changes in revenue mix (higher margin businesses such as data, Internet, local and international becoming a larger portion of revenues versus the lower margin businesses of business and residential domestic switched long distance see Figure 18) and due to higher operating expense and SG&A synergies from the combination with MCI totaling \$5.6 billion in 2002.

Income Statement Adjustments for CompuServe and Brooks Fiber

The CompuServe (CNS/ANS) acquisition is reflected in the earnings model after the 1/31/98 closing date.

On January 31, 1998, the merger between WorldCom and CompuServe Corporation was completed. CompuServe's financials are integrated into WorldCom's income statement under the purchase method of accounting (as reflected in WorldCom's quarterly 1998 income statement, Figure 17). As part of the transaction, WorldCom acquired ANS Communications from America Online Inc. (AOL's backbone Internet provider) and has entered into five year contracts with AOL under which WorldCom will provide network services to AOL. In addition, AOL received CompuServe's Interactive Services Division and \$175 million in cash and WorldCom is retaining CompuServe Network Services (CNS) division. As a result, WorldCom is retaining the backbone Internet (the wholesale part of CompuServe's and AOL's business which is similar to UUNET's operations) without having exposure to direct dial-up end user customers. On January

31st, each share of CompuServe stock (approximately 93 million shares outstanding) was converted into 0.40625 shares of WorldCom common stock. Therefore, approximately 38 million WorldCom shares were issued in connections with the CompuServe acquisition. CompuServe brings \$200 million in cash to WorldCom and no debt. Therefore, the cash that WorldCom received from CompuServe will be passed through to AOL so the two transactions are essentially cash-neutral to WorldCom, no debt was acquired and therefore the total purchase price for these two data networking businesses was roughly 38 million shares of stock.

As a result of purchase accounting CNS/ANS results are reflected for only two of the three months in the first quarter of 1998.

As the CompuServe acquisition was purchase accounting we reflect the CNS/ANS results in the WorldCom income statement for two months (February and March) in the first quarter of 1998. Therefore the growth rate for CNS/ANS revenues is not an apples to apples comparison sequentially from first quarter 1998 to second quarter 1998, and from 1999 over 1998.

The CNS/ANS acquisition is accretive from day one.

The CNS/ANS acquisition is accretive from day one as WorldCom is adding slightly over \$1 billion in annual revenues growing at a mid to high 30% growth rate. (On a standalone basis, CNS was growing roughly 30% per year while ANS was growing 40%). In addition, CNS and ANS combined have roughly \$210 million of EBITDA and there are upwards of \$70-\$80 million in synergies—80% of which are network synergies which are identifiable. Specifically, fourth quarter 1997 pro forma revenues for CNS/ANS were \$231 million up 54% from fourth quarter 1996 with EBITDA margins of 17% pre-synergies. Therefore, based on fourth quarter 1997 results our growth rate assumptions are modest. Goodwill from this transaction totals slightly over \$1.2 billion of which \$429 million will be immediately expensed in the first quarter of 1998 (not reflected in our earnings model since we are projecting results excluding non-recurring items for 1998 and 1999) and the remaining \$780 million will be amortized over 10 years. The \$78 million per year in amortization of goodwill is tax deductible.

The Brooks Fiber merger is reflected using the pooling method of accounting and is 100% reflected in all four quarters of 1998.

The merger between WorldCom and Brooks Fiber was completed on January 29, 1998 and qualified as a pooling of interests transaction. Therefore, Brooks is reflected in all three months of the first quarter of 1998 in our WorldCom quarterly 1998 earnings model (Figure 17). As a result of the merger, each of the 40 million fully diluted shares outstanding of Brooks Fiber common stock was converted into 1.85 shares of WorldCom common stock for a resulting increase of roughly 74 million shares to WorldCom's share count. Brooks Fiber had full year 1997 revenues of \$129 million and a \$26 million EBITDA loss. Brooks' revenues in the fourth quarter of 1997 were \$44.6 million (up 175% over fourth quarter 1996) with an EBITDA loss of \$4.7 million. Our 1998 revenue estimate for Brooks which is incorporated into our WorldCom model reflects revenues of \$366 million or a growth rate of 184% over 1997 revenues. On a standalone basis, Brooks would have had positive EBITDA in the \$35 million range for 1998. Brooks'

The Brooks Fiber merger is an integral part of the local synergies with MCI.

capital expenditures totaled \$422 million in 1997 with \$131 million in the fourth quarter of 1997. In addition, since Brooks is pooling, WorldCom will have to go back and restate 1997 numbers to reflect Brooks Fiber by quarter which we will also do as WorldCom provides restated numbers.

The Brooks' merger is basically neutral to WorldCom's 1998 results and positive in 1999 due to revenue synergies by cross-selling products to each other's customers in addition to SG&A and other synergies from the combination of operations and offices. In addition, Brooks accelerates WorldCom's local market entry in secondary markets by one to two years, expands WorldCom's local presence from 52 markets to 86 markets, fuels top-line revenue growth, adds significant local fiber networks and local switching capacity, and adds additional local access expertise. Therefore, the Brooks merger, which adds very dense, local CLEC networks and sophisticated systems, enhances the synergies to be realized by WorldCom's combination with MCI.

Capital Expenditures Break Out

We anticipate the combined WorldCom/MCI to spend \$7 billion in capital spending in 1999, ramping to \$8 billion by 2002 and \$13 billion by 2007. As a percent of revenue, capital expenditures should decline from 18% of revenues in 1999 to 10% of revenues by 2007, which is a reasonable level in a more steady state environment. In Figure 14 below, we display WorldCom's 1997 and 1998 capital spending by category, with these figures including Brooks Fiber, CNS&ANS but excluding MCI since MCI's capital budget is likely to be altered post-merger and MCI has a significant amount of software and systems expenditures, which do not coincide with WorldCom's hard asset category.

Having said this, one can see in the Figure 14 below that WorldCom's capital spending will rise 21% in 1998 over 1997, a function of the rapid growth of this company. The increases are in growth areas of international and Internet, with each of these categories more than doubling in 1998 vs. 1997. In contrast, WorldCom's long-distance construction project is largely behind it, as evidenced by the decline in spending in that area, as is the heavy expenditures in local infrastructure buildout as WorldCom's and Brooks' networks are now in a success-driven mode as opposed to an up-front buildout mode—which of course, bodes well for margin expansion as more local revenues are put on these network assets.

A note about MCI is that their overall capital expenditures in 1998 are expected to be about \$600 million less than WorldCom's total spending, with the long-distance network being the only area where MCI will spend more, about \$1.3 billion whereas in international, MCI is only expected to spend about 20% of what WorldCom will spend and MCI will spend nowhere near what WorldCom is spending on Internet. However, as we

alluded to above, MCI's spending on systems and software well exceeds anything that WorldCom does. This distribution of capital spending between the two companies is a microcosm of the synergistic benefits of this merger because it clearly demonstrates that the respective spending by WorldCom and MCI is very complementary to developing a fully integrated on-net provider of voice, data and IP services.

Figure 14: WorldCom 1997-1998 Capital Expenditures Breakdown with Brooks Fiber, CNS&ANS but Excluding MCI

\$ in millions

WorldCom (includes Brooks Fiber, CNS&ANS; excludes MCI)	1997A	1998E
Local	\$881	\$592
Long Distance	656	829
International	398	848
Internet	323	808
Local Construction	354	442
Long Distance Construction	<u>536</u>	<u>296</u>
Total	\$3.148	\$3.815

Source: Smith Barney Inc./Salomon Brothers Inc

Discounted Cash Flow Statement, Figure 20

We have provided a ten-year discounted cash flow statement in Figure 20. We assume a discount rate of 13% in-line with WorldCom's weighted average cost of capital and a 2007 terminal firm value to EBITDA multiple of 8-10 times (which we believe is conservative since 2007 over 2006 EBITDA is still growing over 16% and this terminal multiple defaults into a 2007 P/E of 16.6x, below the estimated 2007/2006 EPS growth rate of 19%). We add up WorldCom's discounted free cash flow from 1998 through 2007 (this is post capital spending of \$7 billion in 1999 and growing to \$13 billion by year 2007) plus the present value of putting a 8-10x multiple of 2007 EBITDA to get to our theoretical firm value of \$164 billion at the mid-point of the range. We then subtract pro forma net debt of \$21 billion for a theoretical value of \$143 billion or \$74 per share of at the mid-point. We then conservatively put a 17.5% trading discount on the theoretical value per share for a resulting trading value of \$61 at the mid-point.

Final Word on Valuation

We would argue, that no matter how one slices it WorldCom is worth \$60 a share over the next 12 months and \$90 a share over the next 24 months. We believe WorldCom deserves a P/E on an on-going basis consistent with other large cap blue-chip growth stocks which would put it decidedly in the 30+ P/E range. In addition, our discounted cash flow analysis suggests fair value of over \$70 per share today using very conservative terminal value multiples of earnings and EBITDA. Finally, WorldCom trades at one of the lowest ratios of firm value/EBITDA relative to EBITDA growth among the entire universe of global telecom stocks (see Figure 15), a universe that has over \$1 trillion of market cap. For those that are interested, accompanying WorldCom on the cheapness scale are Telefonica de Argentina (TAR), OTE from Greece, CANTV from Venezuela, Telecomunicaciones de Chile (CTC) and Telebras (TBR) representing the six cheapest telecom stocks in the world on this measure.

Therefore, no matter how one looks at this, WorldCom represents a very cheap, large cap growth stock on a global basis with an unmatched set of strategic assets in its industry—a stock that is cheap relative to other large cap growth stocks in the S&P and a stock that is one of the cheapest telecom values in the world when indexed to its growth rate.

Figure 15. Global Relative Valuation Standings

(From Cheapest to Most Expensive)

Company	Symbol	Price \$7/96	Market Cap. in \$B	FY99 EBITDA	EBITDA 99-02 growth	A/B
Telefonica de Argentina	TAR	\$36.25	\$8,548	4.7	12.2%	0.38
WorldCom (Proforma for MCI)	WCOM	\$42.75	\$83,260	8.8	20.8%	0.42
Telebras	TBR	\$123.00	\$39,444	3.5	7.9%	0.45
Telecomunicaciones de Chile	CTC	\$27.13	\$5,940	7.0	15.4%	0.45
CANTV	VNT	\$40.63	\$5,804	4.1	8.8%	0.47
OTE	HTO.GA	8,010	\$11,706	5.9	12.0%	0.49
Sprint	FON	\$66.00	\$28,380	6.9	9.7%	0.71
Telefonica del Peru	TDP	\$21.56	\$5,041	5.3	6.3%	0.85
Telecom Argentina	TEO	\$34.38	\$6,768	4.5	5.0%	0.89
Frontier Corporation	FRO	\$31.75	\$5,212	9.2	8.6%	1.07
TelMex	TMX	\$53.63	\$22,209	4.9	4.5%	1.08
Century Telephone	CTL	\$41.69	\$3,827	8.1	7.4%	1.10
GTE	GTE	\$60.58	\$57,843	7.2	8.4%	1.13
Telekom Malaysia	T.MK	11.40	\$8,588	8.0	5.8%	1.39
AT&T	T	\$65.44	\$106,598	8.3	5.8%	1.49
Bell Atlantic	BEL	\$100.38	\$77,941	6.6	4.1%	1.61
SBC Communications	SBC	\$43.00	\$78,862	7.7	4.4%	1.73
BellSouth	BLS	\$66.88	\$66,340	7.2	4.0%	1.79
Telecom Italia	TI	\$82.25	\$43,222	3.9	2.1%	1.88
Ameritech	AIT	\$48.00	\$52,665	8.3	4.2%	2.00
Portugal Telecom	PT	\$55.25	\$10,488	7.2	2.7%	2.63
US WEST Communications	USW	\$55.50	\$26,890	6.5	2.2%	2.99
KPN	KPN	\$52.38	\$24,497	6.9	2.0%	3.41
Tele Danmark	TLD	\$44.50	\$11,659	7.7	1.8%	4.36

Source: Smith Barney Inc./Salomon Brothers Inc

Investment Conclusion

WorldCom is a must own stock. This is a company that has an unmatched set of strategic assets, is well positioned to take advantage of the growth areas in telecom, is led by the CEO that has created more shareholder value than any in this industry over the last 10 years and offers a very cheap valuation relative to its growth, especially when one considers its very strong strategic position.

Figure 16: WorldCom Quarterly Revenue Breakdown with Brooks Fiber & CNS/ANS Separate and Excluding MCI, 1997-98E
\$ In millions

	Q1A	Q2A	Q3A	Q4A	1997A	Q1E	Q2E	Q3E	Q4E	1998E
Domestic Switched Services	\$951.9	\$966.8	\$1,009.4	\$1,084.0	\$3,992.1	\$1,111.9	\$1,156.4	\$1,220.0	\$1,288.9	\$4,776.6
Revenue Growth Rate (yr. over yr.)	23.0%	21.7%	18.8%	16.6%	20.1%	16.8%	19.6%	20.9%	21.1%	19.6%
Sequential Growth	4.3%	1.6%	4.4%	5.4%		4.5%	4.0%	5.5%	5.6%	
% of Total Revenues	56.8%	54.6%	52.1%	53.1%	54.3%	48.2%	45.1%	43.3%	43.7%	44.3%
Domestic Private Line	\$352.7	\$371.7	\$406.3	\$444.4	\$1,575.1	\$480.0	\$513.5	\$559.8	\$612.9	\$2,166.2
Revenue Growth Rate (yr. over yr.)	34.0%	34.6%	35.7%	35.4%	35.0%	36.1%	38.2%	37.8%	37.9%	37.5%
Sequential Growth	7.5%	5.4%	9.3%	9.4%		8.0%	7.0%	9.0%	9.5%	
International	\$163.8	\$197.0	\$219.9	\$237.8	\$818.5	\$266.3	\$298.3	\$324.1	\$374.2	\$1,272.9
Revenue Growth Rate (yr. over yr.)	88.5%	82.9%	80.8%	55.5%	74.5%	62.0%	51.4%	51.9%	57.4%	55.5%
Sequential Growth	7.1%	20.3%	11.6%	8.1%		12.0%	12.0%	12.0%	12.0%	
Internet/a	\$111.2	\$125.8	\$147.1	\$181.9	\$566.0	\$218.3	\$251.0	\$301.2	\$361.5	\$1,132.0
Revenue Growth Rate (yr. over yr.)	185.1%	123.0%	111.0%	101.0%	123.5%	96.3%	88.5%	104.8%	88.7%	100.0%
Sequential Growth	22.8%	12.1%	16.9%	23.7%		20.0%	15.0%	20.0%	20.0%	
CNS & ANS Revenues						\$174.8	\$272.6	\$300.3	\$323.5	\$1,071.2
Revenue Growth Rate (yr. over yr.)									40.1%	
Sequential Growth							NME	10.2%	7.7%	
Brooks Revenues						\$66.5	\$75.0	\$102.2	\$131.7	\$365.4
Revenue Growth Rate (yr. over yr.)						175.0%	170.0%	185.0%	195.2%	183.7%
Sequential Growth						28.7%	32.8%	38.2%	28.8%	
Core Revenues	\$1,579.6	\$1,661.3	\$1,782.7	\$1,928.1	\$6,851.7	\$2,307.8	\$2,566.8	\$2,817.5	\$3,082.0	\$10,784.2
Revenue Growth Rate (yr. over yr.)	35.8%	34.8%	32.7%	29.8%	32.4%	46.1%	54.5%	58.0%	60.4%	55.1%
MFS Network Systems & WCOM Other	\$97.6	\$108.8	\$118.5	\$74.7	\$389.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revenue Growth Rate (yr. over yr.)	21.1%	6.3%	12.5%	136.7%	15.4%	NME	NME	NME	NME	NME
Total Revenues	\$1,677.2	\$1,770.1	\$1,901.2	\$2,002.8	\$7,241.5	\$2,307.8	\$2,566.8	\$2,817.5	\$3,082.0	\$10,784.2
Revenue Growth Rate (yr. over yr.)	34.8%	32.7%	30.7%	25.0%	30.5%	37.6%	45.0%	48.2%	54.4%	NMF
Sequential Growth	4.7%	5.5%	7.4%	5.3%		15.2%	11.2%	9.8%	9.7%	

The Brooks Fiber acquisition closed 1/29/98 and is pooling thus, 1998 reflects a full year of SFPT results. 1997 has not yet been restated for Brooks. The Compuserve/ANS acquisition close 1/31/98 and is purchase accounting therefore Q1'98 includes 2 months of CNS/ANS results.

1997 & 1998 HAVE NOT BEEN RESTATED FOR MCI

Source: Smith Barney Inc./Salomon Brothers Inc

Figure 17: WorldCom Quarterly Income Statement, 1997-1999E with Brooks Fiber, CNS/ANS and MCI (starting in 1999)

\$ in millions, except per-share data

	Q1A	Q2A	Q3A	Q4A	1997A	Q1E	Q2E	Q3E	Q4E	1999E	1999E
Total Revenue	\$1,677.2	\$1,770.1	\$1,801.2	\$2,002.8	\$7,261.2	\$2,807.2	\$2,599.5	\$2,817.5	\$3,082.0	\$10,784.2	\$38,058.7
Revenue Growth Rate (yr. over yr.)	34.8%	32.6%	30.7%	23.0%	30.5%	37.8%	45.0%	48.2%	54.6%	46.7%	252.8%
MCI Network Expense Synergies											(1,200.0)
Total Line Costs & Operating Expenses	\$811.5	\$922.4	\$971.9	\$955.8	\$3,791.6	\$1,168.2	\$1,285.0	\$1,400.8	\$1,525.0	\$5,378.2	\$18,038.9
Expense Growth Rate (yr. over yr.)	35.5%	27.0%	20.7%	7.9%	21.5%	28.2%	29.8%	44.0%	54.7%	41.8%	235.4%
Operating Expenses/Revenue	54.3%	52.1%	51.1%	49.2%	51.8%	50.8%	50.1%	49.7%	49.3%	49.9%	47.4%
Gross Margin	\$765.7	\$847.7	\$829.3	\$1,017.0	\$3,869.7	\$1,189.6	\$1,201.8	\$1,417.5	\$1,567.0	\$5,406.0	\$20,018.8
Gross Margin (Percentage)	45.7%	47.8%	46.5%	50.8%	48.4%	48.4%	48.9%	50.3%	50.7%	50.1%	52.6%
MCI SG&A Synergies											(1,200.0)
Total SG&A	\$372.3	\$380.7	\$387.8	\$398.6	\$1,540.4	\$485.0	\$510.0	\$555.0	\$610.0	\$2,100.0	\$8,210.4
SG&A Growth Rate (yr. over yr.)	20.1%	14.1%	9.7%	9.2%	17.8%	24.9%	34.0%	48.7%	52.7%	39.6%	281.8%
SG&A/Revenue	22.2%	21.5%	20.4%	20.0%	21.0%	20.1%	19.9%	20.1%	19.7%	19.9%	21.6%
EBITDA	\$399.4	\$467.0	\$541.5	\$617.4	\$2,013.9	\$674.6	\$771.8	\$863.5	\$957.0	\$3,259.0	\$11,408.4
EBITDA Growth Rate (yr. over yr.)	80.6%	70.0%	84.9%	83.6%	76.5%	71.9%	65.3%	57.6%	66.0%	61.2%	262.7%
EBITDA Margin	23.8%	26.4%	28.5%	30.8%	27.8%	29.7%	30.1%	30.3%	31.0%	30.2%	31.0%
WC&M Depreciation & Amortization	\$150.4	\$155.2	\$159.0	\$166.0	\$630.5	\$159.4	\$174.4	\$189.4	\$209.4	\$732.6	\$984.5
MCI Depreciation & Amortization											2,479.3
Depreciation Writedown Effect											(600.0)
Goodwill From MCI											650.0
CNS & ANS Depreciation						15.0	17.5	20.5	28.5	78.5	96.3
Brooks Depreciation						11.4	18.4	21.4	29.4	81.6	110.2
Amortization of MFS & UUNET Goodwill	51.6	51.5	51.5	51.6	206.0	51.5	51.5	51.5	51.5	206.0	206.0
Amortization of Network Technology (MFS)	20.0	20.0	20.0	20.0	80.0	20.0	20.0	20.0	20.0	80.0	80.0
Amortization of Assembled Work Force (MFS)	1.1	1.1	1.1	1.1	4.2	1.1	1.1	1.1	1.1	4.2	4.2
Amortization of CNS & ANS Goodwill (Tax Deductible)						13.0	19.5	19.5	19.5	71.5	78.0
Total Depreciation & Amortization	\$222.9	\$227.8	\$231.9	\$238.5	\$920.7	\$271.9	\$292.9	\$329.3	\$357.9	\$1,265.2	\$4,068.5
Total Expenses	\$1,504.7	\$1,520.9	\$1,591.2	\$1,622.9	\$6,252.7	\$1,894.5	\$2,095.3	\$2,289.3	\$2,492.3	\$8,783.5	\$30,318.7
Operating Income	\$178.5	\$239.7	\$309.8	\$378.8	\$1,089.5	\$409.2	\$469.5	\$529.2	\$567.7	\$2,069.7	\$7,736.8
Operating Margin	10.2%	12.6%	18.3%	18.9%	14.9%	17.5%	18.5%	18.8%	19.6%	18.6%	20.3%
Interest Expense	(75.5)	(77.7)	(81.3)	(84.8)	(318.7)	(86.5)	(101.8)	(121.5)	(131.5)	(441.5)	(\$1,360.0)
Interest Income	8.4	2.3	8.1	3.8	20.4	10.0	10.0	10.0	10.0	40.0	0.0
Total Net Interest Expenses	(67.1)	(75.4)	(73.2)	(81.0)	(298.3)	(76.5)	(91.8)	(111.5)	(121.5)	(401.5)	(\$1,360.0)
Total Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(60.0)
Pretax Income Pro Forma	\$102.4	\$163.8	\$234.3	\$297.7	\$791.2	\$332.6	\$377.8	\$417.6	\$446.1	\$1,599.2	\$6,229.8
Total Taxes	(53.8)	(86.2)	(121.8)	(154.8)	(415.6)	(145.3)	(167.7)	(185.8)	(212.8)	(711.6)	(2,579.3)
Income Tax Rate	52.6%	52.0%	52.0%	52.0%	52.0%	44.5%	44.5%	44.5%	44.5%	44.5%	42.3%
Net Income	\$48.6	\$77.6	\$112.4	\$142.9	\$375.6	\$187.3	\$209.2	\$231.8	\$233.3	\$887.5	\$3,650.7
Preferred Dividends	(6.6)	(6.6)	(6.6)	(6.6)	(26.4)	(6.6)	(6.6)	(6.6)	(6.6)	(26.4)	(26.4)
Extraordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income to Common	\$42.0	\$71.0	\$105.8	\$136.3	\$349.2	\$180.7	\$202.6	\$225.2	\$226.7	\$861.1	\$3,624.3
Shares Outstanding/a	950.2	958.7	967.3	969.4	961.4	1065.9	1072.6	1072.6	1072.6	1070.9	1847.5
Normalized Earnings Per Share	\$0.05	\$0.08	\$0.12	\$0.15	\$0.40	\$0.17	\$0.20	\$0.22	\$0.26	\$0.83	\$1.97
EPS Growth Rate (yr. over yr.)	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m
Special "Cash" Earnings Per Share/b	\$0.20	\$0.26	\$0.34	\$0.48	\$1.18	\$0.25	\$0.28	\$0.30	\$0.33	\$1.17	\$2.40
Traditional Cash Earnings Per Share/c	\$0.25	\$0.32	\$0.38	\$0.39	\$1.36	\$0.42	\$0.48	\$0.52	\$0.59	\$2.00	\$4.36
EBITDA Per Share	\$0.41	\$0.49	\$0.56	\$0.64	\$2.10	\$0.63	\$0.72	\$0.79	\$0.89	\$3.04	\$6.06
EBITDA/Share Growth Rate (yr. over yr.)	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m

A Actual, E Salomon Smith Barney Estimate, EBITDA Earnings before interest, taxes, depreciation, and amortization, SG&A Selling, general and administrative, n/m not meaningful.

/a 1999 shares outstanding include 875 million shares related to the MCI acquisition which assumes an exchange ratio of 1.501x which is the midpoint of the range.

/b Special "cash" earnings per share as defined by WorldCom adds back MFS purchase accounting amortization and cash utilization of MFS tax loss carryforwards. From 1999 onward we have included CNS/ANS goodwill in this calculation. From 1999 onward we have included MCI amortization in this calculation.

/c Earnings per share plus depreciation and amortization per share.

The Brooks Fiber acquisition closed 1/28/99 and is pooling therefore 1998 reflects a full year of BFPT results. 1997 HAS NOT BE RESTATED FOR BFPT.

The Compuserve/ANS acquisition close 1/31/98 and is purchase accounting therefore Q1'98 includes 2 months of CNS/ANS results.

1997 & 1998 HAVE NOT BEEN RESTATED FOR MCI - 1999 HOWEVER DOES INCLUDE MCI.

Sources: Smith Barney Inc./Salomon Brothers Inc.

Figure 15. WorldCom Annual Revenue Breakdown (Including Brokers, CNS/ANS and MCI) 1998E-2007E
\$ in millions

	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	'99-'04 CAGR	'99-'07 CAGR
Business Long Distance Switched Services	\$14,487.8	\$15,141.8	\$16,463.0	\$17,638.5	\$18,676.8	\$20,281.9	\$21,960.2	\$23,735.3	\$25,548.8	\$27,420.9	7.7%	7.7%
Revenue Growth Rate (yr. over yr.)		4.5%	8.7%	7.1%	5.9%	8.8%	8.3%	8.1%	7.8%	7.2%		
% of Total Revenues	43.5%	39.8%	38.5%	33.1%	29.8%	27.8%	26.0%	24.2%	22.5%	20.7%		
Residential Long Distance Switched Services	\$5,989.8	\$5,690.4	\$5,605.0	\$5,532.1	\$5,465.7	\$5,411.1	\$5,357.0	\$5,303.4	\$5,250.4	\$5,197.9	(1.2%)	(1.1%)
Revenue Growth Rate (yr. over yr.)		-5.0%	-1.5%	-1.3%	-1.2%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%		
% of Total Revenues	18.0%	15.0%	12.4%	10.4%	8.7%	7.4%	6.3%	5.4%	4.6%	3.9%		
Total Long Distance Switched Services	\$20,477.6	\$20,832.1	\$22,068.0	\$23,170.6	\$24,142.6	\$25,693.0	\$27,317.2	\$29,038.7	\$30,838.9	\$32,618.8	5.8%	5.8%
Revenue Growth Rate (yr. over yr.)		1.7%	5.9%	5.0%	4.2%	6.4%	6.3%	6.3%	6.2%	5.8%		
% of Total Revenues	61.5%	54.7%	48.9%	43.4%	38.5%	35.2%	32.3%	29.8%	27.1%	24.6%		
Local Domestic Switched Services	\$1,431.4	\$2,205.5	\$3,239.1	\$4,442.5	\$6,008.7	\$7,222.7	\$8,617.5	\$10,220.2	\$12,109.3	\$14,339.2	31.3%	28.4%
Revenue Growth Rate (yr. over yr.)		54.1%	46.9%	37.2%	35.3%	20.2%	19.3%	18.6%	18.5%	18.4%		
% of Total Revenues	4.3%	5.8%	7.2%	8.3%	9.6%	9.9%	10.2%	10.4%	10.6%	10.8%		
Total Domestic Switched Services	\$21,909.0	\$23,418.2	\$25,718.1	\$28,057.1	\$30,630.7	\$33,433.5	\$36,483.8	\$39,862.8	\$43,000.5	\$47,681.5	9.3%	8.3%
Revenue Growth Rate (yr. over yr.)		8.9%	9.8%	9.1%	9.2%	9.2%	9.2%	9.2%	9.4%	9.3%		
% of Total Revenues	65.8%	61.5%	67.0%	62.6%	48.8%	45.8%	43.2%	40.7%	38.3%	35.9%		
Domestic Private Line/Data	\$5,795.0	\$6,822.8	\$8,344.2	\$10,160.4	\$12,326.9	\$14,906.5	\$17,985.7	\$21,570.3	\$25,909.1	\$31,115.5	21.4%	20.9%
Revenue Growth Rate (yr. over yr.)		17.7%	22.3%	21.8%	21.3%	20.9%	20.5%	20.1%	20.1%	20.1%		
% of Total Revenues	17.4%	17.9%	18.5%	19.0%	19.6%	20.4%	21.2%	22.0%	22.7%	23.5%		
International	\$1,272.9	\$1,934.8	\$2,824.8	\$4,000.0	\$5,039.0	\$6,248.4	\$7,748.0	\$9,807.5	\$11,913.3	\$14,772.5	32.0%	28.9%
Revenue Growth Rate (yr. over yr.)		52.0%	48.0%	41.8%	28.0%	24.0%	24.0%	24.0%	24.0%	24.0%		
% of Total Revenues	3.8%	5.1%	8.3%	7.5%	8.0%	8.6%	9.2%	9.8%	10.6%	11.1%		
Internet	\$2,838.0	\$4,023.3	\$9,028.8	\$8,487.5	\$11,562.8	\$14,559.2	\$17,711.2	\$21,425.0	\$25,825.3	\$31,098.8	34.5%	29.1%
Revenue Growth Rate (yr. over yr.)		52.5%	49.8%	40.5%	38.8%	25.9%	21.7%	21.0%	20.5%	20.4%		
% of Total Revenues	7.9%	10.8%	13.4%	15.9%	18.4%	18.9%	20.9%	21.8%	22.7%	23.4%		
Core Revenues	\$31,614.9	\$36,199.1	\$42,915.8	\$50,685.0	\$59,550.3	\$69,147.5	\$79,918.8	\$92,475.6	\$107,248.2	\$124,646.2	17.2%	16.7%
Revenue Growth Rate (yr. over yr.)		14.5%	18.6%	18.1%	17.5%	16.1%	15.8%	15.7%	16.0%	16.2%		
SHL & Other	\$1,662.0	\$1,859.5	\$2,231.4	\$2,677.7	\$3,213.3	\$3,855.9	\$4,627.1	\$5,652.5	\$6,663.0	\$7,995.8	20.0%	20.0%
Revenue Growth Rate (yr. over yr.)		11.8%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%		
% of Total Revenues	5.0%	4.9%	4.9%	5.0%	6.1%	6.3%	5.5%	5.7%	5.8%	6.0%		
Total Revenues	\$33,276.9	\$38,058.7	\$45,147.9	\$53,362.7	\$62,772.8	\$73,003.4	\$84,545.9	\$98,928.1	\$113,911.2	\$132,641.8	17.3%	16.8%
Revenue Growth Rate (yr. over yr.)		14.4%	18.8%	18.2%	17.6%	18.3%	15.8%	15.9%	16.2%	16.4%		

1998 - 2007 are Pro Forma For MCI.

Source: Smith Barney Inc./Salomon Brothers Inc.

Figure 19. WorldCom 1995E-2007E (Including MCI [starting in 1999], CNS, ANS, & Brooks)---Earnings Model

(\$ in Millions Except Per Share Amounts)

	1995E	1996E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	'95-'04	'05-'07
Total Revenues	\$19,784.8	\$20,929.7	\$45,147.3	\$53,982.7	\$62,772.6	\$73,003.4	\$84,848.9	\$99,020.1	\$113,011.2	\$128,649.9	17.3%	16.6%
Revenue Growth Rate (yr. over yr.)	48.7%	58.9%	18.4%	19.1%	17.0%	16.3%	14.4%	15.0%	12.3%	12.3%		
MCI Network Expense Synergies		(1,200.0)	(2,100.0)	(3,100.0)	(4,200.0)	(5,300.0)	(6,400.0)	(7,500.0)	(8,600.0)	(9,700.0)		
Total Line Costs & Operating Expenses	\$11,378.1	\$12,838.8	\$20,767.7	\$24,013.2	\$27,618.9	\$32,121.8	\$37,300.2	\$43,132.4	\$50,130.9	\$58,362.4	15.6%	15.6%
Expense Growth Rate (yr. over yr.)	41.0%	52.4%	15.1%	15.0%	13.0%	13.3%	12.8%	12.8%	12.2%	12.4%		
Operating Expenses/Revenues	49.6%	47.4%	46.0%	46.0%	44.0%	44.0%	44.0%	44.0%	44.0%	44.0%		
Gross Margin	\$8,406.7	\$8,090.9	\$24,379.6	\$29,969.5	\$35,152.6	\$40,881.6	\$47,548.7	\$55,889.6	\$62,880.3	\$70,287.5	18.8%	17.8%
Gross Margin (Percentage)	42.5%	38.2%	54.0%	55.5%	56.0%	56.0%	56.0%	56.0%	55.6%	55.4%		
MCI SG&A Synergies		(1,300.0)	(1,400.0)	(1,500.0)	(1,700.0)	(2,000.0)	(2,400.0)	(2,800.0)	(3,200.0)	(3,600.0)		
Total SG&A	\$1,180.0	\$2,110.4	\$2,488.0	\$10,672.5	\$12,554.5	\$14,889.7	\$18,909.2	\$19,806.0	\$22,792.8	\$28,820.4	19.5%	15.8%
SG&A Growth Rate (yr. over yr.)	39.8%	77.1%	17.6%	18.4%	17.8%	15.5%	15.4%	15.2%	12.8%	12.4%		
SG&A/Revenues	5.9%	10.1%	5.5%	19.7%	20.0%	20.4%	22.2%	20.0%	20.0%	22.4%		
EBITDA	\$13,259.0	\$15,988.4	\$14,998.6	\$19,277.0	\$21,192.1	\$26,211.2	\$30,438.6	\$35,180.1	\$41,089.0	\$47,781.0	20.6%	18.1%
EBITDA Growth Rate (yr. over yr.)	21.1%	21.7%	28.2%	25.4%	21.0%	19.3%	13.9%	13.9%	12.3%	12.4%		
EBITDA Margin	30.2%	31.0%	33.0%	35.5%	33.8%	36.0%	36.0%	35.5%	36.0%	37.1%		
WCOM Depreciation & Amortization	\$732.8	\$884.6	\$1,037.4	\$1,244.8	\$1,499.8	\$1,717.9	\$1,975.4	\$2,271.9	\$2,589.9	\$2,926.6	18.0%	16.5%
MCI Depreciation & Amortization		2,470.3	2,425.0	2,000.0	1,150.0	3,475.0	3,825.0	4,200.0	4,600.0	5,000.0	9.1%	8.2%
Depreciation Writedown Effect		(500.0)	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)		
Goodwill From MCI		850.0	850.0	850.0	850.0	850.0	850.0	850.0	850.0	850.0		
CNS & ANS Depreciation	79.6	98.3	103.0	110.3	118.0	124.2	135.1	144.5	154.8	164.6	7.0%	8.1%
Brooks Depreciation	81.3	110.2	130.2	150.4	172.4	196.5	222.1	248.4	281.5	321.8	15.0%	12.5%
Amortization of MFS & UUNET Goodwill	206.0	206.0	206.0	206.0	206.0	206.0	206.0	206.0	206.0	206.0		
Amortization of Network Technology (MFS)	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0		
Amortization of Acquired Work Force (MFS)	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2		
Amortization of CNS & ANS Goodwill (Tax Deductible)	71.8	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0		
Total Depreciation & Amortization	\$1,268.3	\$2,688.6	\$4,413.0	\$6,023.7	\$6,378.4	\$8,852.9	\$9,699.9	\$10,203.0	\$10,844.8	\$11,601.3	10.1%	10.1%
Total Expenses	\$12,789.3	\$20,219.7	\$24,452.4	\$30,709.4	\$34,049.4	\$40,974.6	\$46,999.9	\$53,335.4	\$61,035.7	\$69,963.7	14.0%	15.1%
Operating Income	\$11,000.7	\$12,739.9	\$10,494.8	\$13,257.3	\$11,288.9	\$14,311.7	\$17,138.7	\$21,877.1	\$25,043.3	\$28,949.8	25.2%	22.4%
Operating Margin	55.6%	61.3%	23.2%	24.6%	17.9%	19.7%	20.2%	22.0%	22.0%	22.5%		
Interest Expense	(441.3)	(51,860.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)		
Interest Income	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Total Net Interest Expense	(431.3)	(51,860.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)	(8,000.0)		
Total Other Income	0.0	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)		
Pre-tax Income Pre Forms	\$11,569.2	\$2,399.9	\$2,494.8	\$12,759.9	\$11,208.9	\$14,311.7	\$17,138.7	\$21,877.1	\$25,043.3	\$28,949.8	29.9%	25.0%
Total Taxes	(711.0)	(2,070.3)	(3,782.5)	(4,934.8)	(5,184.8)	(7,402.4)	(8,782.8)	(10,895.6)	(12,334.8)	(14,612.8)		
Income Tax Rate	44.5%	48.2%	40.0%	38.6%	37.6%	37.5%	37.5%	37.4%	37.3%	37.3%		
Net Income	\$10,858.2	\$3,329.6	\$-1,287.7	\$7,825.1	\$6,024.1	\$6,909.3	\$8,355.9	\$10,981.5	\$12,708.5	\$14,337.0	32.1%	26.8%
Preferred Dividends	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)		
Extraordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net Income to Common	\$10,829.8	\$3,301.2	\$-1,316.1	\$7,796.7	\$5,995.7	\$6,881.3	\$8,327.5	\$10,953.1	\$12,680.1	\$14,308.6	32.2%	27.0%
Shares Outstanding/a	1070.9	1247.8	1247.8	1250.9	1253.8	1258.6	1264.0	1270.0	1276.0	1282.0		
Normalized Earnings Per Share	\$10.11	\$2.64	\$-1.05	\$6.23	\$4.78	\$5.48	\$6.59	\$8.62	\$9.95	\$11.16	31.8%	26.8%
EPS Growth Rate (yr. over yr.)	nml	nml	55.6%	22.2%	20.4%	19.8%	18.9%	18.8%	12.8%	12.4%		
Special "Cash" Earnings Per Share/b	\$1.17	\$2.49	\$2.14	\$2.88	\$2.72	\$2.77	\$2.99	\$3.35	\$3.81	\$4.37	27.1%	23.5%
Traditional Cash Earnings Per Share/c	\$2.00	\$2.69	\$2.18	\$2.89	\$2.00	\$2.71	\$3.60	\$5.27	\$6.14	\$6.79	22.3%	19.8%
EBITDA Per Share	\$12.34	\$12.81	\$12.01	\$15.18	\$16.97	\$20.83	\$24.03	\$27.66	\$32.26	\$36.45	20.7%	18.0%
EBITDA/Share Growth Rate (yr. over yr.)	nml	nml	21.2%	22.2%	16.1%	16.1%	13.4%	13.4%	14.3%	14.3%		

A Actual. E Salomon Smith Barney Estimate. EBITDA Earnings before interest, taxes, depreciation, and amortization. SG&A Selling, general and administrative. nml not meaningful.

/a 1999 shares outstanding include 875 million shares related to the MCI acquisition which assumes an exchange ratio of 1.501x which is the midpoint

of the range.

/b Special "cash" earnings per share as defined by WorldCom adds back MFS purchase accounting amortization and cash utilization of MFS tax loss carryforwards. From 1995 onward we have included CNS/ANS goodwill in this calculation. From 1999 onward we have included MCI amortization in this calculation.

/c Earnings per share plus depreciation and amortization per share.

The Brooks Fiber acquisition closed 1/28/00 and is pooling therefore 1999 reflects a full year of BFPT results. 1997 HAS NOT BE RESTATED FOR BFPT.

The Compuserve/ANS acquisition closed 1/31/99 and is purchase accounting therefore Q1'99 includes 3 months of CNS/ANS results.

1997 & 1998 HAVE NOT BEEN RESTATED FOR MCI -- 1999 HOWEVER DOES INCLUDE MCI.

Source: Smith Barney Inc./Salomon Brothers Inc.

Figure 20. WorldCom Discounted Cash Flow Analysis
\$ in millions, except per-share data

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Part 1. Annual Free Cash Flow Projections										
Revenues	\$10,784	\$38,059	\$45,147	\$53,363	\$62,773	\$73,003	\$84,546	\$98,028	\$113,911	\$132,642
EBITDA	3,256	11,808	14,899	18,677	22,598	26,281	30,437	35,290	41,008	47,751
Net Income	861	3,624	5,648	7,429	10,232	12,790	14,640	17,386	20,688	24,566
Plus:										
Interest Expense After-Tax	\$245	\$779	\$581	\$493	\$444	\$343	\$240	\$241	\$241	\$241
Depreciation and Amortization	1,255	4,068	4,414	5,024	5,372	5,954	6,596	7,303	8,065	8,801
Less: Capital Spending	(3,400)	(7,000)	(7,500)	(7,750)	(8,000)	(8,365)	(9,125)	(9,995)	(11,000)	(13,000)
Less: Working Capital Increase	0	0	0	0	0	0	0	0	0	0
Free Cash Flow	(1,039)	1,471	3,142	5,598	8,049	10,221	12,351	14,935	17,993	20,609
Discounted Free Cash Flow	(\$919)	\$1,152	\$2,178	\$3,432	\$4,369	\$4,909	\$5,250	\$5,618	\$5,990	\$6,071
Perpetuity Value Calculation	#1	#2	#3							
Discount rate	13.0%	13.0%	13.0%							
Assumed 2007 FV/EBITDA Multiple	8.0	9.0	10.0							
Implied 2007 P/E Multiple	14.7	16.6	18.8							
Part 2. Calculation of Theoretical Value Per Share										
Discount rate (%)	13.0%	13.0%	13.0%							
Sum Of Discounted Cash Flow (1998-2007)	\$38,050	\$38,050	\$38,050							
Present Value Of Perpetual Cash Flow	172,535	126,602	140,669							
Value Of Debt Plus Equity	150,585	164,652	178,719							
Less: Market Value Of Debt/a	(21,000)	(21,000)	(21,000)							
Plus: Market Value Of Cash	100	100	100							
Theoretical Value	129,685	143,752	157,819							
Fully Diluted Shares Outstanding/b	1,947.6	1,947.6	1,947.6							
Theoretical Value Per Share	\$66.59	\$73.87	\$81.03							
Implied Trading Value (15%-20% Discount Included)	\$54.93	\$60.89	\$66.85							

1998 does not include MCI.

a/ Pro Forma for MCI as of September 1997.

b/ Including MCI Shares

Source: Smith Barney Inc./Salomon Brothers Inc.

Figure 21. MCI Earnings Model 1997A-1999E

(\$ In Millions, Except Per Share Amounts)

	1997A				1998E						
	1QA	2QA	3QA	4QA	1997A	1QE	2QE	3QE	4QE	1998E	1999E
Total Oper. Revenues	\$4,883	\$4,843	\$4,886	\$5,113	\$19,725	\$5,213	\$5,272	\$5,327	\$5,602	\$21,413	\$23,318
Revenue Growth (Yr. Over Yr.)	8.7%	8.1%	4.3%	7.6%	6.7%	8.8%	8.9%	9.0%	9.6%	8.6%	8.9%
Total Oper. Expenses	\$4,297	\$4,291	\$4,557	\$4,869	\$18,034	\$4,897	\$4,886	\$4,867	\$5,044	\$19,695	\$21,374
Cost Of Services	2,525	2,547	2,679	2,844	10,595	2,798	2,790	2,713	2,846	11,147	12,200
Sales, Operations & General	1,319	1,285	1,354	1,497	5,435	1,552	1,521	1,553	1,580	6,206	6,683
Depreciation	453	479	525	548	2,005	548	575	601	618	2,342	2,481
EBITDA	\$1,039	\$1,031	\$954	\$771	\$3,695	\$864	\$961	\$1,060	\$1,175	\$4,060	\$4,430
Operating Income	\$566	\$552	\$329	\$224	\$1,691	\$316	\$386	\$459	\$558	\$1,719	\$1,939
Interest Expense	(58)	(58)	(58)	(82)	(255)	(58)	(68)	(76)	(76)	(278)	(375)
Interest Income	6	4	4	4	18	3	3	3	1	10	22
Other Income	(3)	(4)	6	5	4	(4)	(4)	(4)	(4)	(15)	(15)
Equity In Affiliated Companies (Concert)	(37)	(24)	(48)	(21)	(128)	(20)	(20)	(20)	(20)	(80)	15
Pretax Income	\$494	\$470	\$235	\$131	\$1,330	\$237	\$297	\$363	\$459	\$1,356	\$1,586
Income Taxes	\$184	\$175	\$85	\$45	\$489	\$88	\$110	\$134	\$170	\$502	\$587
Tax Rate	37.2%	37.2%	36.0%	34.4%	36.7%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Net Income	\$310	\$295	\$150	\$86	\$841	\$149	\$187	\$228	\$289	\$854	\$999
Distribution on Trust Preferred Securities	(15)	(15)	(15)	(15)	(80)	(15)	(15)	(15)	(15)	(60)	(60)
Net Income Applicable to Common	\$295	\$280	\$135	\$71	\$761	\$134	\$172	\$213	\$274	\$794	\$939
Average Common Shares	701	708	695	703	707	720	720	720	720	720	720
Earnings Per Share	\$0.42	\$0.40	\$0.19	\$0.10	\$1.10	\$0.19	\$0.24	\$0.30	\$0.38	\$1.10	\$1.30
EBITDA per Share	\$1.48	\$1.48	\$1.23	\$1.10	\$5.23	\$1.20	\$1.33	\$1.47	\$1.63	\$5.64	\$6.15
Ratios											
Telecom Expense/Revenues	51.71%	52.59%	54.82%	55.63%	53.71%	53.68%	52.93%	50.94%	50.81%	52.06%	52.33%
Sales, Operations and General/Revenues	27.01	26.12	27.71	29.28	27.55	29.76	28.85	29.15	28.21	28.98	28.67
EBITDA/Revenues	21.28	21.29	17.47	15.09	18.73	16.57	18.22	19.91	20.98	18.96	19.00
Operating Margin	12.00	11.40	6.73	4.37	8.57	6.08	7.32	8.62	9.96	8.03	8.32
EPS Growth Rate	0.0%	(8.0)%	(55.7)%	(77.0)%	(36.0)%	(55.8)%	(39.5)%	52.0%	279.0%	(0.1)%	18.2%

A Actual. E Smith Barney Inc./Salomon Brothers Inc estimate. EBITDA Earnings before interest, taxes, depreciation and amortization.

Q3'97 excludes \$515 million in charges associated with exiting and restructuring several business customer contracts, eliminating selected retail channels & enhancing MCI's information. Technology Service operations plus increased provisions associated with certain uncollectible reseller contracts & litigation matters.

Q4'97 excludes \$752 million in pre-tax charges (\$0.86 in after-tax eps). Including \$235 mm for employee and customer retention programs, \$252 mm for restructuring and \$265 million for technology upgrades primarily in data centers.

Source: Smith Barney Inc./Salomon Brothers Inc

Figure 22. MCI 1997A-1999E Quarterly Earnings by Segment

(\$ in Millions, Except Per Share Amounts)

	1997A				1998E						
	1QA	2QA	3QA	4QA	1997A	1QE	2QE	3QE	4QE	1998E	1999E
Core Business											
Revenue	\$4,384	\$4,353	\$4,410	\$4,544	\$17,691	\$4,581	\$4,549	\$4,808	\$4,748	\$18,487	\$19,320
Revenue Growth (yr. over yr.)	8.2%	4.7%	3.2%	5.6%	5.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Traffic Growth (yr. over yr.)	4.0%	5.5%	6.0%	9.7%	8.3%						
Cost of Services	2,208	2,241	2,378	2,472	9,299	2,428	2,365	2,350	2,350	9,494	9,782
Cost of Service as a % of Revenues	50.4%	51.5%	53.9%	54.4%	52.6%	53.0%	52.0%	51.0%	49.5%	51.4%	50.6%
SG&A	1,111	1,018	1,023	1,103	4,255	1,164	1,160	1,152	1,144	4,620	5,021
SG&A as a % of Revenues	25.3%	23.4%	23.2%	24.3%	24.1%	25.4%	25.5%	25.0%	24.1%	25.0%	26.0%
Depreciation	412	433	472	495	1,812	467	489	510	525	1,991	2,110
Total Operating Expenses	\$3,731	\$3,692	\$3,873	\$4,070	\$15,386	\$4,059	\$4,014	\$4,012	\$4,020	\$16,105	\$18,918
Operating Income	\$853	\$661	\$537	\$474	\$2,325	\$523	\$534	\$598	\$729	\$2,382	\$2,407
Operating Income Growth (yr. over yr.)	6.4%	10.2%	-13.0%	-23.8%	-5.2%	-20.0%	-19.1%	11.0%	53.8%	2.5%	1.1%
Operating Margin	14.8%	15.2%	12.2%	10.4%	13.1%	11.4%	11.8%	12.8%	15.4%	12.9%	12.5%
EBITDA	1,085	1,094	1,009	989	4,137	990	1,023	1,106	1,254	4,373	4,518
EBITDA Margin	24.3%	25.1%	22.9%	21.3%	23.4%	21.6%	22.6%	24.0%	26.4%	23.7%	23.4%
Non-operating (expense) income, net	(250)	(257)	(203)	(184)	(884)	(178)	(182)	(203)	(248)	(810)	(819)
Net Income	\$403	\$404	\$934	\$290	\$1,431	\$321	\$353	\$393	\$481	\$1,572	\$1,589
Earnings Per Share	\$0.57	\$0.57	\$0.48	\$0.41	\$2.02	\$0.45	\$0.49	\$0.55	\$0.67	\$2.18	\$2.21
Ventures and Developing Markets											
Revenue	\$579	\$613	\$608	\$708	\$2,508	\$727	\$823	\$823	\$963	\$3,338	\$4,488
Revenue Growth (yr. over yr.)	22%	29%	28%	35%	28%	26%	34%	35%	36%	33%	35%
Cost of Services	389	411	411	487	1,898	488	541	476	614	2,118	2,928
SG&A	211	253	338	404	1,208	388	381	401	436	1,585	1,682
Depreciation	41	46	53	53	193	81	86	91	93	351	381
Total Operating Expenses	\$641	\$710	\$802	\$944	\$3,097	\$955	\$988	\$988	\$1,143	\$4,054	\$4,989
EBITDA	(\$21)	(\$51)	(\$141)	(\$183)	(\$398)	(\$147)	(\$79)	(\$54)	(\$87)	(\$367)	(\$121)
EBITDA Margin	-3.6%	-8.3%	-23.2%	-25.8%	-15.8%	-20.2%	-9.6%	-6.5%	-9.0%	-11.0%	-2.7%
Operating Income	(\$82)	(\$97)	(\$194)	(\$236)	(\$589)	(\$228)	(\$165)	(\$145)	(\$180)	(\$718)	(\$502)
Operating Margin	-10.7%	-15.8%	-31.8%	-33.8%	-23.5%	-31.4%	-20.1%	-17.6%	-18.7%	-21.5%	-11.2%
Non-operating (expense) income, net	(4)	5	49	47	112	16	(12)	(23)	(16)	(35)	(198)
Equity Income of Affiliates (Concert)	(37)	(24)	(48)	(21)	(128)	(20)	(20)	(20)	(20)	(80)	15
Net Income	(\$103)	(\$118)	(\$191)	(\$210)	(\$605)	(\$232)	(\$197)	(\$188)	(\$215)	(\$832)	(\$683)
Earnings Per Share	(\$0.15)	(\$0.18)	(\$0.28)	(\$0.30)	(\$0.88)	(\$0.32)	(\$0.27)	(\$0.28)	(\$0.30)	(\$1.16)	(\$0.85)
Revenue Eliminations	(\$80)	(\$123)	(\$132)	(\$139)	(\$474)	(\$95)	(\$100)	(\$105)	(\$110)	(\$410)	(\$495)

Source: Smith Barney Inc./Salomon Brothers Inc

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Companies mentioned in this report:

AT&T (T-\$65.44; 3M)
Disney (DIS-\$107.88; 1M)
Home Depot (HD-\$68.88; 2M)
MCI (MCIC-\$49)
Merck (MRK-\$130.75; 3M)
Microsoft* (MSFT-\$87.25; 1M)
Sprint (FON-\$66; 1M)
Wal-Mart (WMT-\$50.75; 1L)

Prices are as of the close, April 7, 1998

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